

# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



## THESIS

**CENTRALIZATION OF CONTRACTING ACTIVITIES:  
PRIMARY FACTORS TO CONSIDER TO ACHIEVE THE  
MOST EFFICIENT AND EFFECTIVE REGIONAL  
CONTRACTING ORGANIZATION**

by

Robert Campbell

June 1999

Thesis Advisor:  
Associate Advisor:

Jeffrey R. Cuskey  
David V. Lamm

Approved for public release; distribution is unlimited.

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE June 1999		3. REPORT TYPE AND DATES COVERED Master's Thesis
4. TITLE AND SUBTITLE : CENTRALIZATION OF CONTRACTING ACTIVITIES: PRIMARY FACTORS TO CONSIDER TO ACHIEVE THE MOST EFFICIENT AND EFFECTIVE REGIONAL CONTRACTING ACTIVITY				5. FUNDING NUMBERS
6. AUTHOR(S) Campbell, Robert				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000				8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSORING / MONITORING AGENCY REPORT NUMBER
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited.				12b. DISTRIBUTION CODE
13. ABSTRACT (maximum 200 words) The purpose of this thesis is to examine the critical factors that must be considered in any centralization of contracting activities in a geographical region, and understanding these factors, how can they be incorporated using sound business practices to form an efficient and effective centralized contracting activity for the customer. The data for this research were gathered through a literature review on the INTERNET, and various libraries. Interviews were conducted with personnel in the San Diego region, as well as electronic surveys of various commands in the San Diego, Puget Sound, Norfolk, and Jacksonville regions. This thesis concludes that consolidation of contracting activities must consider critical factors including contracting workload, change management/perceptual issues, stakeholder issues, funding, technology, head of contracting activity authority issues, and core versus non-core mission support. The final conclusion is that centralization of contracting activities can be implemented, however, it must be done in an environment that seeks to add value to the contracting process, is process driven in finding the right regional procurement structure, and focuses upon the customer.				
14. SUBJECT TERMS : Regionalization, Consolidation, Acquisition, Contracting, Acquisition Reform				15. NUMBER OF PAGES 193
				16. PRICE CODE
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UL	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)  
Prescribed by ANSI Std. Z39-18



Approved for public release; distribution is unlimited

**CENTRALIZATION OF CONTRACTING ACTIVITIES: PRIMARY FACTORS  
TO CONSIDER TO ACHIEVE THE MOST EFFICIENT AND EFFECTIVE  
REGIONAL CONTRACTING ORGANIZATION**

Robert Campbell  
Lieutenant Commander, United States Navy  
B.S., Clemson University, 1986

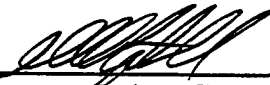
Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF SCIENCE IN MANAGEMENT**

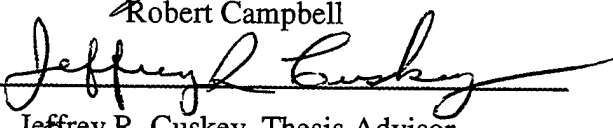
from the

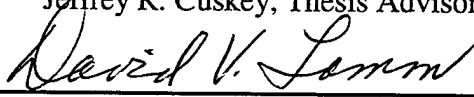
**NAVAL POSTGRADUATE SCHOOL  
June 1999**

Author: \_\_\_\_\_

  
Robert Campbell

Approved by: \_\_\_\_\_

  
Jeffrey R. Cuskey, Thesis Advisor

  
David V. Lamm, Associate Advisor

  
Reuben T. Harris, Chairman  
Department of Systems Management



## **ABSTRACT**

The purpose of this thesis is to examine the critical factors that must be considered in any centralization of contracting activities in a geographical region, and understanding these factors, how can they be incorporated using sound business practices to form an efficient and effective centralized contracting activity for the customer.

The data for this research were gathered through a literature review on the INTERNET, and various libraries. Interviews were conducted with personnel in the San Diego region, as well as electronic surveys of various commands in the San Diego, Puget Sound, Norfolk, and Jacksonville regions.

This thesis concludes that consolidation of contracting activities must consider critical factors including contracting workload, change management/perceptual issues, stakeholder issues, funding, technology, head of contracting activity authority issues, and core versus non-core mission support. The final conclusion is that centralization of contracting activities can be implemented, however, it must be done in an environment that seeks to add value to the contracting process, is process driven in finding the right regional procurement structure, and focuses upon the customer.



## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
	A. PURPOSE .....	1
	B. BACKGROUND.....	2
	C. RESEARCH OBJECTIVES.....	4
	D. RESEARCH QUESTIONS.....	4
	E. SCOPE AND ORGANIZATION.....	6
	F. METHODOLOGY .....	7
	G. ASSUMPTIONS AND LIMITATIONS .....	8
II.	BACKGROUND ON THE REGIONALIZATION OF CONTRACTING ACTIVITIES .....	11
	A. INTRODUCTION.....	11
	B. DEFINITION OF TERMS .....	12
	C. REGIONALIZATION CONCEPT .....	12
	1. Regionalization of Installation Management.....	13
	2. Reduction in the Number of Claimant Activities.....	14
	D. NAVSUP REGIONALIZATION VISION .....	15
	1. Overview .....	15
	2. SUP 21 Vision.....	15
	3. Regionalization of Supply Functions .....	17
	4. Contracting Consolidation.....	18
	E. ASN RDA NCOAST STUDY .....	19
	F. REGION SOUTHWEST.....	24
	1. Overview .....	24
	2. Mission.....	25



3. Area of Responsibility.....	25
4. Regionalization Process .....	27
5. Regionalization of Contracting Functions.....	28
G. CHAPTER SUMMARY .....	32
III. INTERVIEW OF CONTRACTING ACTIVITIES.....	33
A. INTRODUCTION.....	33
B. SUMMARY OF ON-SITE PERSONAL INTERVIEWS .....	34
1. Fleet and Industrial Supply Center, San Diego .....	35
2. Space and Naval Warfare Command .....	45
3. Naval Facilities Engineering Command - Southwest Division.....	56
4. Naval Medical Center – San Diego .....	63
5. Naval Construction Battalion Center - Port Hueneme .....	74
C. SUMMARY OF ELECTRONIC SURVEY RESPONSES .....	82
1. Survey Question Number One.....	82
2. Survey Question Number Two.....	85
3. Survey Question Number Three.....	89
4. Survey Question Number Four.....	91
5. Survey Question Number Five .....	94
6. Survey Question Number Six.....	96
7. Survey Question Number Seven .....	99
8. Survey Question Number Eight.....	100
9. Survey Question Number Nine .....	102
D. SUMMARY OF TENT CONFERENCE COMMENTS .....	105
E. CHAPTER SUMMARY .....	113
IV. ANALYSIS .....	115
A. INTRODUCTION.....	115
B. COMMON THEMES OF CENTRALIZED CONTRACTING ACTIVITIES .....	115
1. Theme: Contracting is Core to Our Mission .....	115
2. Theme: Change is Hard to Overcome .....	120
3. Theme: Reduced Resources Driving the Process.....	123

4. Theme: Impact of Technology and Automation Tools .....	126
5. Theme: Stakeholder Management Required .....	130
6. Theme: Pressure to Reduce Costs .....	135
7. Theme: Commonality in Product/Function .....	138
8. Theme: Commonality in Organization Structure .....	139
C. CRITICAL FACTORS TO CONSIDER FOR CONSOLIDATION .....	140
1. Factor: Core versus Non-Core .....	141
2. Factor: Change Management (Culture/Perceptions/Control) .....	143
3. Factor: Resources (Personnel/Budget/Customer Base) .....	144
4. Factor: Impact of Technology .....	145
5. Factor: Impact of Acquisition Tools .....	145
6. Factor: Logistics Infrastructure/Separation from Regional Office .....	146
7. Factor: Stakeholder Management/Buy-In .....	147
8. Factor: Process Orientation .....	147
9. Factor: Commonality - Products/Functions .....	148
D. SOUND BUSINESS PRACTICE .....	148
E. STRATEGY ROADMAP .....	150
F. CHAPTER SUMMARY .....	152
V. CONCLUSIONS AND RECOMMENDATIONS .....	155
A. INTRODUCTION .....	155
B. CONCLUSIONS .....	156
1. Common Themes .....	157
2. Critical Factors .....	160
C. RECOMMENDATIONS .....	164
1. Further Study on Single HCA Issue .....	164
2. Further Research on Consortium/Leveraged Buys .....	164
3. Regional Procurement Team Leaders Review and Implement Critical Factors in Future Strategic Planning .....	164
4. ASN (RDA) Develop Performance Metrics for Contracting .....	165
5. Regional Procurement Leaders Explore New Technology to Integrate Regional Organization .....	165
6. Regional Procurement Leaders Review Current Policy of Contracting Activity Consolidation .....	166

D. SUMMARY AND REVIEW OF RESEARCH QUESTIONS .....	166
1. Primary Thesis Research Question.....	166
2. Supporting Research Question Number One .....	167
3. Supporting Research Question Number Two.....	167
4. Supporting Research Question Number Three.....	168
5. Supporting Research Question Number Four.....	168
6. Supporting Research Question Number Five .....	169
7. Supporting Research Question Number Six.....	170
8. Supporting Research Question Number Seven .....	170
9. Supporting Research Question Number Eight .....	171
10. Supporting Research Question Number Nine .....	172
E. AREAS FOR FURTHER RESEARCH.....	173
1. Consortium/Leverage Buying.....	173
2. Measuring Contract Activity Performance.....	173
3. Effects of Current Regionalization/Consolidation Efforts .....	173
4. Future Role of the Contracting Officer .....	173
LIST OF REFERENCES .....	175
INITIAL DISTRIBUTION LIST.....	179

## LIST OF FIGURES

Figure 2.1	NAVSUP Consolidation of Contracting Activities .....	19
Figure 2.2	Twenty Percent Consolidation Savings of \$83 Million .....	23
Figure 2.3	Fifty Percent Cumulative Savings of \$199 Million .....	24
Figure 2.4	Navy Region Southwest.....	26
Figure 2.5	Current Procurement Organization Structure .....	29
Figure 2.6	Proposed Regionalized Procurement Organization Concept.....	30
Figure 4.1	Proposed Strategic Roadmap .....	152



## LIST OF TABLES

Table 3.1	Summary of Comments from FISC San Diego.....	44
Table 3.2	Summary of Comments from SPAWAR San Diego.....	56
Table 3.3	Summary of Comments from NAVFAC San Diego.....	63
Table 3.4	Summary of Comments from NMC San Diego .....	73
Table 3.5	Summary of Comments from NCBC Port Hueneme .....	81
Table 3.6	Summary of NADEP Products/Contract Vehicles.....	86

## **I. INTRODUCTION**

### **A. PURPOSE**

The purpose of this research is to examine the primary factors that affect the effective consolidation of contracting functions and/or authority within a geographical region. Understanding these factors, how can the primary factors ensure the injection of sound business practices in the implementation of an effective and efficient contracting process for the customer?

In an era of reengineering, downsizing, and reducing infrastructure to reduce the cost of defense, Navy contracting functions have come under review as a potential target of opportunity to help reduce burdensome overhead in the support of our Naval forces. The Navy Contracting Organizational Alignment Study Team (NCOAST) was chartered on 11 June 1997 to evaluate existing contracting organizational structures, relationships, and processes to identify alternatives to better support customers, streamline processes, reduce the contracting infrastructure, and provide savings for recapitalization. [Ref. 1:p. 1]

Concurrently, the Deputy Chief of Naval Operations for Logistics (DCNO N4) began efforts to reduce the base operating infrastructure through a concept of regionalization of common support functions within a geographical area. This matched the NCOAST goal of reviewing options to reduce the number of contracting activities within a geographical region. [Ref. 2:p. 1]

In an attempt to regionalize, consolidate, or centralize any activity or function, one of the key issues that needs to be addressed is to determine the factors that facilitate a successful centralization effort. The NCOAST final report of January 1998 reviewed some critical factors that must be considered but only looked at hierarchical structures that must be changed, not the factors to consider. The Commander, Naval Region South West, headquartered in San Diego, California, provided a list of considerations that must be reviewed by the functional teams in their regionalization effort. Additionally, functional teams were required to baseline their respective functions and determine how each function could be regionalized within the San Diego region.

This thesis will examine the critical factors that must be considered in a regionalization effort from the perspective of the contracting activity, as well as the customer. The compilation of critical factors from the perspective of contracting officers, and supply officers of major systems commands, base supply departments, and local commands in the San Diego region, as well as major contracting activities on the East Coast will help benefit those activities who are considering regionalization of a function or activity in the near future.

## **B. BACKGROUND**

Reduction in the number of Navy contracting activities was mandated in 1996 by Naval Supply Systems Command in an effort to reduce the contracting



infrastructure costs through consolidating/centralization of contracting activities and authority within a region. NAVSUP set consolidation goals of reducing the number of activities from 476 in April 1997, to 100 in October 1998, with an end state of 65 contracting activities by the end of fiscal year 1999. To date, the number of contracting activities has been reduced to 114, or 76 percent. [Ref. 3:p. 2]

This consolidation effort coincided with the mandate from the office of the Chief of Naval Operations to regionalize Naval commands within a geographic area and to consolidate base operating functions within the geographic region to reduce infrastructure. This mandate resulted in the formation of twelve separate geographic Navy regions within the continental United States, Alaska, and Hawaii, including Commander, Navy Region South West, located in San Diego, CA. [Ref. 4:p. 2]

The Office of the Deputy Chief of Naval Operations for Acquisition mandated the NCOAST study to review how contracting organizations could be structured to reduce infrastructure and increase cost savings. This study resulted in three separate recommendations with proposed cost savings totaling \$85 million, with the majority of cost savings attributed to personnel reductions. [Ref. 5:p. 75] Although this study cited potential cost savings primarily through contracting workforce reduction, it did not address what critical factors are needed to be

considered in the process of contracting activity consolidation to ensure the consolidation process injected sound business practices and addressed all stakeholder concerns.

Analysis of the critical factors that must be considered in any regionalization of contracting activities will enable us to make sure that the potential impact upon all stakeholders are addressed and sound business practices are injected into future contracting consolidation efforts.

### **C. RESEARCH OBJECTIVES**

The objective of this thesis is to examine the critical factors that must be considered when a regional commander structures a regional procurement activity in pursuit of infrastructure reduction efforts. Knowing these critical factors, this study will outline how these critical factors can be utilized in the formation of a coherent strategy "roadmap" to ensure sound business practices are injected within the regionalization of a procurement process.

### **D. RESEARCH QUESTIONS**

What are the primary factors that affect the effective consolidation of contracting functions and/or authority in pursuit of a sound and cost effective regionalization effort?

In support of this thesis, the following subsidiary research questions will be examined:

- a. How are contracting functions aligned within a region and are they in direct support of the command's mission or are they aligned by functional divisions of a command/unit?
- b. What are the primary products and services procured within a typical Navy region and what contracting methods and/or vehicles are used to procure the required goods and services?
- c. What products/services would benefit from the use of new contracting methods or vehicles to enable your activity become more efficient?
- d. Is the scope of work performed at each command within a geographic region conducive to consolidation of contractual authority or function?
- e. What decisions and resources will be required to effectively centralize contracting functions?
- f. To what extent will the centralization of contracting activities affect the organizational structure of the current activities?
- g. Are there any major issues or barriers to implementing the recommendations contained in the Navy Contracting Organization Alignment Study Team (NCOAST) study?
- h. What business practices or rules of contracting will be required to ensure the right product and services are procured by the centralized contracting group?
- i. Understanding the critical factors involved in the centralization issue, what strategy could we employ in any generic regionalization effort?

## **E. SCOPE AND ORGANIZATION**

The scope of this thesis will focus on a review of the NCOAST study, as well as an in-depth review of the current regionalization process proposed by the Navy Region SouthWest, and current contracting activities at Region SouthWest contracting.

The thesis will conclude with a general strategy for centralization of contracting activities at any region in the future, based upon the critical factors noted in the thesis research.

The organization of this thesis is as follows:

Chapter I provides an introduction to the thesis, research questions, scope of study, methodology, and assumptions.

Chapter II provides background information on the regionalization concept and current initiatives from NAVSUP SUP 21 Regionalization vision/contracting consolidation effort, and ASN (RD&A) NCOAST study. Also, this chapter provides an overview of the Navy Region South West as it pertains to this study.

Chapter III provides interview responses, as well as survey replies from various contracting offices, major system commands, regional contracting offices, and customers who recently relinquished contracting authority under a partnership agreement with FISC San Diego.

Chapter IV analyzes the perceptions and comments provided by the interviewees within the context of how the Navy can better conduct consolidation and regionalization of contracting functions. An examination of sound business practices will be provided, as well as a strategy for implementing future consolidation.

Chapter V provides recommendations and conclusions of the thesis study. It summarizes answers to the primary and secondary questions and provides areas for further research.

## **F. METHODOLOGY**

This thesis is a review of the Navy's effort to consolidate contracting activities and will survey numerous contracting activities within the San Diego region, as well as a representative number of contracting activities on the East Coast. A review of books, magazines, electronic databases, and other library information sources was conducted in order to obtain background information on consolidation of contracting activities within the Navy. Command-specific information was found through internet searches, personal/telephone interviews, email correspondence, and surveys of contracting officers and contracting command representatives.

Appendix A contains a copy of the consolidation survey form used for this thesis research.

## **G. ASSUMPTIONS AND LIMITATIONS**

The regionalization of contracting activities affects all regions in a similar manner, and the primary factors that must be considered are assumed to be homogenous or similar for each region. This study focuses on one Navy region, specifically the SouthWest region including naval contracting activities in the San Diego area. Although there are region-specific factors that must be considered in this study, these unique critical factors will be presented, as well as those that make up the baseline of critical factors to consider for regionalization of contracting activities.

This study is limited to data collected from representative Naval activities in the San Diego region, and a sample of contracting activities in other Navy Regions.

Due to the political sensitivity of regionalization, some commands whose participation is considered important to present all facets of issues were reluctant to participant. This study acknowledges the political issues surrounding any reengineering process, especially the effect upon the contracting workforce. Therefore, this thesis presents the data in a holistic viewpoint, not from a personal perspective, to avoid the politicization of this study.

In addition, this study contains data collected from personal interviews, email correspondence, and survey questionnaires. As such, the data collected are limited by the personal experience of respondents.





## **II. BACKGROUND ON THE REGIONALIZATION OF CONTRACTING ACTIVITIES**

### **A. INTRODUCTION**

This chapter provides definitions of regionalization and consolidation, and how these concepts interact within the context of centralization of contracting functions. Background information will be provided on the regionalization concept as envisioned by the Chief of Naval Operations (CNO) and Naval Supply Systems Command (NAVSUP) SUP 21 Regionalization and Contracting consolidation effort. An overview of the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RD&A)) Navy Contracting Organization Alignment Study Team (NCOAST) study is important to capture the impact of consolidation of contracting functions within the centralization theme upon contracting activities.

Finally, this thesis study would not be complete without an overview of the Navy Region South West and their ongoing effort to regionalize procurement functions within the geographical area. A review of the regionalization concept, as envisioned by the Commander, Navy Region South West, and the ongoing effort to consolidate contracting activities in Region South West will enable us to better capture the primary factors that must be considered in future contracting function consolidation efforts.

## **B. DEFINITION OF TERMS**

**Centralization.** As it applies to purchasing/contracting functions, centralization refers to the degree to which authority for performing purchasing and purchasing-related functions is vested in a single operating unit under the control of a director of purchasing/contracting. [Ref: 6:p. 6]

**Regionalization.** The consolidation/realignment of functions/positions either geographically or organizationally to streamline and achieve savings through the elimination of duplicative positions. Regionalization brings together the separate Base Operating Support (BOS) service providers in a geographic region and forms a singular BOS service provider. [Ref. 7:p. 20]

**Core Functions.** Functions, components of functions, or portions of functions that the Navy must perform, wholly or in part, with in-house personnel, facilities, or both. Core would be those functions or a specified percentage of such functions that the Navy has determined it must maintain as an in-house capability. [Ref. 7:p. 20]

## **C. REGIONALIZATION CONCEPT**

On 23 June 1997, the Chief of Naval Operations (CNO) promulgated the Navy's concept of regionalization via a message to all Naval commanders. This message outlined the need to reduce the cost of operating the Navy shore establishment in order to capture the savings for quality of life, readiness, and

modernization. The projected savings were already captured within the FY99 Defense budget and were dependent upon the regionalization of shore installation management functions and reducing the number of claimant activities within the shore installation management infrastructure. [Ref. 8:p. 1]

In recognition of the magnitude of this task, the Department of Navy established a Commercial Activities Working Group (CAWG) to develop courses of action for claimants to follow in pursuing cost-reduction efforts. The resulting Navy Infrastructure Reduction Business Plan provided overarching guidelines and latitude for individual claimancies to develop their own plans and schedules to reflect unique local situations. [Ref. 7:p. 20]

A key policy statement included in this business plan was the pursuit of regionalization and competitive sourcing concurrently. Each organization would strive to achieve the most cost efficient and effective organization through A-76 studies, and regionalization/consolidation efforts. [Ref. 7:p. 1] Part of this plan coincided with the CNO's installation management plan to regionalize installation management and reduce the number of claimant activities.

#### **1. Regionalization of Installation Management**

The CNO's concept of regionalization of installation management functions was viewed as a cost reduction enabler. It would facilitate elimination of redundant functions and/or organizations, and streamline the remaining functions

through consolidation, and elimination of unnecessary overhead cost generators.

[Ref. 8:p. 1]

## **2. Reduction in the Number of Claimant Activities**

The second approach to reduce shore installation management was to reduce the number of claimancies within a region. This would be accomplished by claimant consolidation, similar to that performed by NAVSUP of their contracting activities, and the services would be provided to tenant activities within a region.

[Ref. 8:p. 1]

The NAVOP 15 directive message entitled, "Streamlining Shore Installation Management," directed the reduction of claimants with BOS as a primary mission from eighteen to eight. The resulting BOS claimancies were the three major Commanders-in-Chief, Commander for Naval Education and Training, Reserve Forces, Chief of Naval Operations, Naval Sea Systems Command, and Naval Air Systems Command. The other ten claimancies would then be able to concentrate on their primary missions independent of BOS concerns. The effect of the realignments would allow for the remaining claimant providers to become more competitive and possible candidates for A-76 outsourcing and privatization studies. [Ref. 9:p. 1]

The net result of the infrastructure reduction business plan presented by the Deputy Chief of Naval Operations for Logistics (DCNO N4) was to achieve \$8

billion in savings through a combination of competitive sourcing studies, attained efficiencies in other BOS functions between FY 1998 and FY 2005 and free resources for readiness and modernization requirements. [Ref. 10:p. 1]

## **D. NAVSUP REGIONALIZATION VISION**

### **1. Overview**

On 22 January 1998, the Naval Supply Systems Command (NAVSUP) announced the start of a NAVSUP Reengineering Study entitled, "SUP 21. The goal of the SUP 21 Reengineering Team study was to determine if there is a need to reengineer the Naval Supply System, and if so, to develop a detailed road map for reengineering the supply system. The focus of the study was "Creating Customer Value Added" to the supply process. [Ref. 11:p. 1]

This reengineering study is part of the many ongoing initiatives at NAVSUP to add value to the supply process, including the SUP 21 reengineering study, regionalization, and contracting consolidation.

### **2. SUP 21 Vision**

The SUP 21 vision was simple. During "SUP 21 Phase I," NAVSUP established a reengineering team to identify and address issues associated with reengineering the supply system. This team's tasking was to recommend a vision for the "could be" state of Navy Supply by the year 2005. This vision would reaffirm the "One Touch Supply" concept, which allows a customer to get all their

supply requirements through one interface with the supply system, and with "delivering world class customer-centric logistics support through integrated supply chain management" as the implementing philosophy. [Ref. 12]

The team interviewed over 260 customers/stakeholders and visited private industry for best practices in logistics and supply chain management. The four key areas evolved from the SUP 21 Reengineering Phase I team were: [Ref. 12]

- Navy Supply should be customer focused
- Navy Supply requires a paradigm shift - manage suppliers, not supplies
- Navy Supply needs to speak with one voice
- There is a compelling need for change

As a result of this new vision, NAVSUP embraced "business process reengineering" (BPR) methodologies, and analyzed supply "processes" and studied possible organizational changes to best execute the NAVSUP mission. This includes an intensive, customer-focused, top-down management effort to make breakthroughs in the performance capabilities and add value to key processes. [Ref. 12]

The SUP 21 team's final product was to set forth reengineering recommendations, including changes in strategy, milestones for implementation of changes, clear metrics, and infrastructure reduction...and most importantly, include the impact upon the customer. [Ref. 11:p. 1] Some of the potential

changes envisioned include a contracting center of excellence which consolidates contracting services at one activity, and buying consortiums which will incorporate a virtual inventory control point serving the entire Department of Defense.

A final part of the SUP 21 vision encapsulates breaking regional support paradigms, with a potential "could be" state to include a) regional commanders dictating consolidation of procurement functions, regional commanders brokering support locally but also including the use of nationally consolidated contracting vehicles, and finally, establishing a single regional supply organization to administer the "could be" state of supply operations. [Ref. 12]

### **3. Regionalization of Supply Functions**

Regionalization and installation claimant consolidation were mandated by the CNO through NAVOP 15, "Streamlining Infrastructure Management." NAVSUP began to work with Deputy Chief of Naval Operations for Logistics (CNO N46) to develop and define its regionalization guidelines and objectives. NAVSUP provided the N46 Regionalization Streamlined Business Case Analysis Process Handbook to all Fleet and Industrial Supply Center (FISC) Business offices. In addition to providing background information, this handbook was to be used as a tool for development of as-is and to-be baselines for regionalization. [Ref. 13:p. 2].

NAVSUP began to implement regionalization in 1997, rolling up BOS functions and associated resources under the Fleet Commanders in each FISC region, Mechanicsburg, and Philadelphia by 1 October 1998. Negotiations and development of Inter-Service Support Agreements began in earnest. To date, most FISCs are in the process or have made inroads to regionalize retail supply, procurement, fuel, mail, and freight transportation functions. Also, FISCs have regional responsibilities for bachelor quarters and galley operations. [Ref. 14:p. 2]

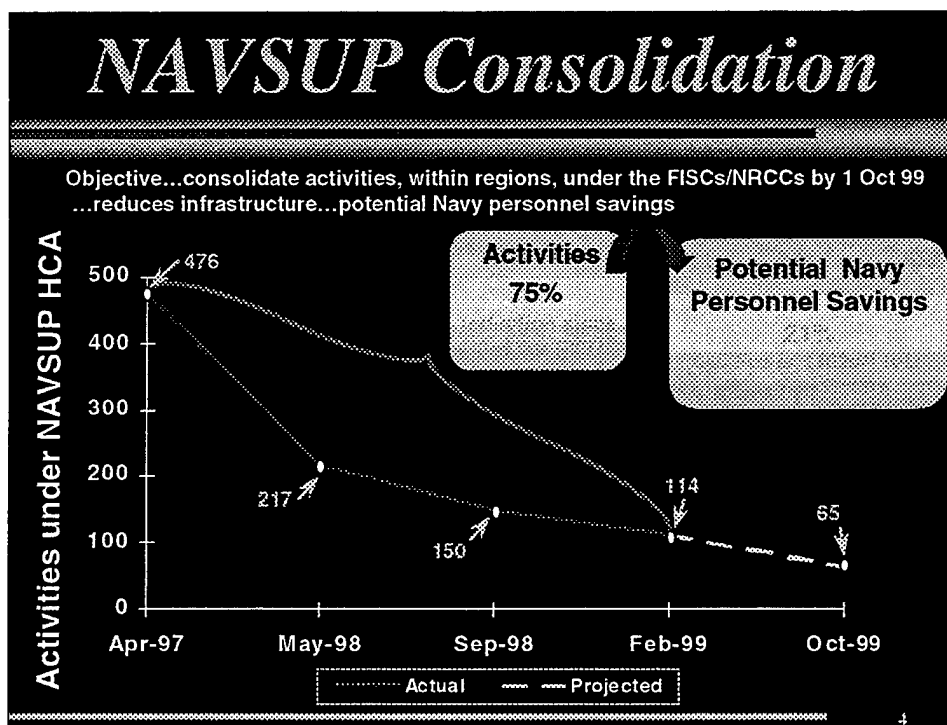
#### **4. Contracting Consolidation**

In a May 1998 "Top Twelve Current Issues" presentation, the NAVSUP Commander outlined the contracting consolidation goal in conjunction with the CNO and ASN (RDA) objectives to reduce redundancies by streamlining contracting functions. His vision called for NAVSUP to reduce and consolidate NAVSUP contracting activities under the control of Fleet and Industrial Supply Centers (FISCs) and Navy Regional Contracting Centers (NRCCs). [Ref. 15:p. 1]

NAVSUP Code 02, head of contracting policy, presented this vision for contracting consolidation in a status meeting with the NAVSUP Commander in May 1998. This vision called for the consolidation of NAVSUP Headquarters, Head of Contracting Activity (HCA) contracting activities under FISC and NRCC control, consolidating all supplies, services, and fleet support contracting workload to the FISCs and NRCCs. In addition, it called for establishing a Service



Contracting center of Excellence with centralized procurements and local ordering capabilities, working in coordination with the Naval Facilities Command. This strategy would continue the original NAVSUP goal of contracting activity reduction of 75 percent, consolidating contracting functions from 216 in April 98 to a more aggressive goal of 49 by October 1999, as illustrated by figure 2.1. [Ref. 16:p. 3]



**Figure 2.1 NAVSUP Consolidation of Contracting Activities [Ref. 16]**

#### **E. ASN (RD&A) NCOAST STUDY**

On 6 June 1997, the Assistant Secretary of the Navy for Research, Development, and Acquisition approved, with the concurrence of the Deputy Chief

of Naval Operations for Logistics, a charter to initiate an evaluation of existing contracting organizational structures, relationships, and processes to identify alternatives that would enable the Navy to achieve the goal of creating an adaptable, responsive, and affordable organization. [Ref. 18:p. 1]

The charter was very specific: Identify a Department of Navy contracting organizational structure capable of furnishing the best value to customers, considering the services provided and cost. The requirement was five-fold: baseline the current organizational structure, examine the effects of changes in the contracting pipeline, understand the current structure, and develop and evaluate alternative contracting structures or modifications. [Ref. 1: p. 1]

The NCOAST study team convened on 7 July 1997 and consisted of representatives from Space and Naval Warfare Systems Command; Naval Air Systems Command; Military Sealift Command; Naval Facilities Engineering Command; Commander-in-Chief, U.S. Atlantic Fleet; Naval Sea Systems Command; Naval Supply Systems Command; Office of Naval Research; Bureau of Medicine; Assistant Secretary of the Navy for Research, Development, and Acquisition; and Naval Undersea Warfare Command. [Ref. 5:p. 77]

The team reviewed the existing organizational structures, built a database of contracting activities based upon a contracting customer survey/data call, and reviewed numerous thematic options including Head of Contracting Activity

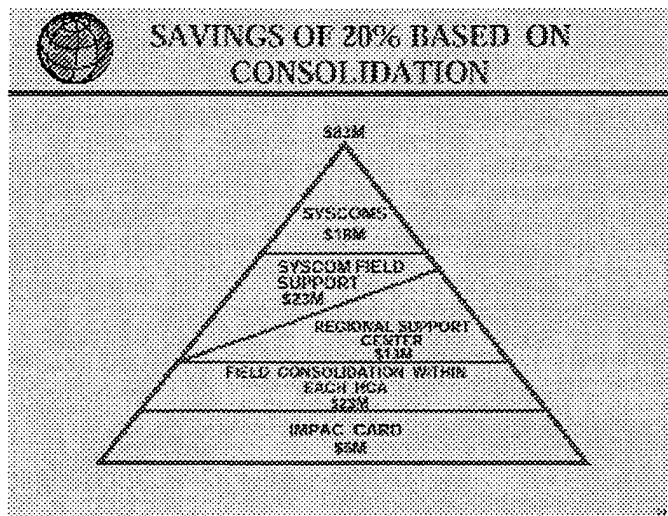
(HCA) authority, Navy regionalization, resource ownership and infrastructure reduction both in the field and at the SYSCOM level. [Ref. 5:p. 77]

On 27 October 1997, the team presented its second and final briefing to the NCOAST Board of Advisers which consisted of Commander, Naval Supply Systems Command; Commander-in-Chief, U.S. Atlantic Fleet; Commander-in-Chief, U.S. Pacific Fleet; Deputy Chief of Naval Operations for Logistics (Code N44); Assistant Secretary of the Navy (Research, Development, and Acquisition - Acquisition and Business Management); Deputy Chief of Naval Operations for Resources (N8); and representatives from the Naval Facilities Engineering Command, Naval Sea Systems Command; Space and Naval Warfare Systems Command; and the Bureau of Medicine and Surgery. [Ref. 5:p. 8]

This final NCOAST presentation provided information about the Navy's baseline contracting workforce from 570 contracting activities, approximately 10,000 personnel, with a labor base of \$500 million performing 1.3 million contracting actions equaling \$39 billion in total obligations. The evaluated options (data as of 27 October 1997) focused upon Fleet/Regional HCA authority, a single HCA regional support center, and SYSCOM contracting authority including a single SYSCOM. The NCOAST team believed the consolidation of contracting authority could save between \$83 million to \$199 million over the consolidation period. [Ref. 5:p. 6]

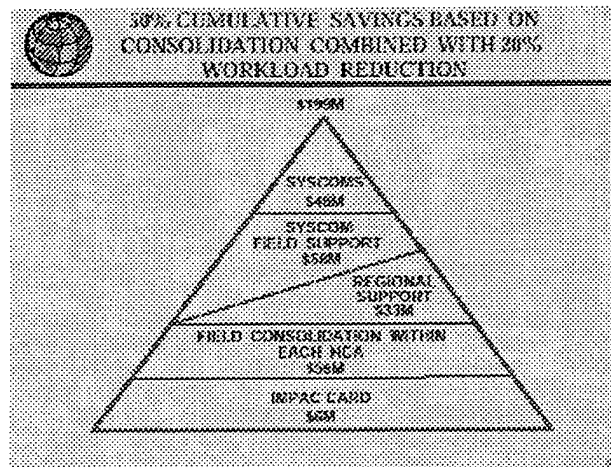
The savings were based upon computing a base of the total labor dollars spent for systems headquarters (\$120 million), system command field support activities (\$150 million), field support activities (\$225 million), and micro-purchase support (\$6 million) totaling \$501 million. Using a formula based upon total combined savings expected to be achieved for the database regions, Hampton Roads, and NorthWest, and allocation of savings (SYSCOM HQ - 24%, SYSCOM Field Activities - 30%, Field Support - 46%, and a ratio for micro-purchase savings) to the labor categories, a percentage of savings to be expected for a given level of contracting activity consolidation were calculated for each scenario. [Ref. 5:p. 42-54]

Figure 2.2 illustrates how the cost savings for \$83 million was derived, based upon a 20 percent level of consolidation of the \$501 million procurement labor base. Of the \$83 million in savings to be achieved based upon conservative estimates, \$18 million would be derived from Systems Command Headquarter staff reductions, \$23 million from SYSCOM field support activity reductions, \$13 million in regional support center reductions, \$23 million from field activity consolidations, and \$6 million from the expanded use of micro-purchase cards. [Ref. 5: p. 44-45.]



**Figure 2.2: Twenty Percent Consolidation Savings of \$83 Million [Ref. 5]**

Figure 2.3 illustrates how the cost savings for \$199 million were derived, with a 50 percent cumulative savings based upon a combination of consolidation and 20 percent reduction in procurement workload. Of the \$199 million in savings to be achieved based upon the new estimates, \$46 million would be derived from Systems Command Headquarter staff reductions, \$58 million from SYSCOM field support activity reductions, \$33 million in regional support center reductions, \$56 million from field activity consolidations, and the same \$6 million from the expanded use of micro-purchase cards. [Ref. 5:pp. 46-49.]



**Figure 2.3: Fifty Percent Cumulative Savings of \$199 Million [Ref. 5]**

## **F. REGION SOUTHWEST**

### **1. Overview**

In August 1996, as part of the Pacific Fleet Shore Installation Management (SIM) realignment initiative, COMNAVBASE San Diego assumed responsibilities for all base operating support (BOS) for the Southwest region. This includes operational authority over naval bases/naval air stations in California, Nevada, and Arizona including NAS North Island, NAB Coronado, NAS Lemoore, NAS Fallon Nevada, NAVSTA San Diego, Submarine Base San Diego, and NAF El Centro. Additionally, Navy Region Southwest (NRSW) also assumed responsibility for subordinate/component commands such as the Naval Medical Center, Public Works Center, and the Federal Fire Department. [Ref. 19:]

## **2. Mission**

As the Naval Shore Installation headquarters for the Southwest region, NRSW provides coordination of BOS functions for operating forces throughout the region. This includes areas such as housing, environmental, security, family services, port services, air services, bachelor quarters, supply, medical and logistical functions. The command also serves as regional coordinator for the Commander in Chief, U.S. Pacific Fleet, coordinating support for bases in Southern California and Nevada. [Ref. 19]

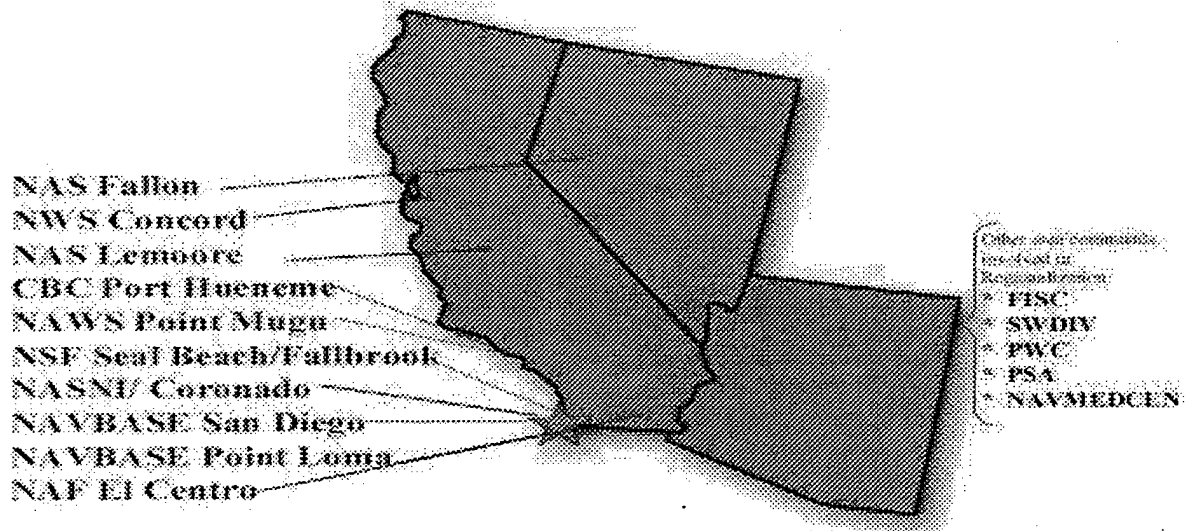
## **3. Area of Responsibility**

The Navy Region Southwest encompasses the three state region of California, Nevada, and Arizona. This directly relates to a combined payroll (USMC, USN, and Civilian) of \$3.93 billion for the region. Regional statistics highlighting the impact of the region include over 103,086 sailors and marines, 37,800 civilians, 198,900 military families, 11,000 reservists, and over 85,000 retirees. Operational platforms in the region include 58 aircraft squadrons, 626 aircraft, 48 surface combatants/patrol craft, two aircraft carriers, five submarines, and five military sealift command vessels. Major bases located in this region are illustrated in Figure 2.4 and include the following: [Ref. 19]

- NAS Fallon, NV
- NAS Lemoore
- NWS Concord, CA
- CBC Port Hueneme, CA
- NAWS Point Mugu, CA

- NSF Seal Beach/Fallbrook, CA
- NAS North Island Coronado, CA
- NAVBASE San Diego, CA
- NAVBASE Point Loma, CA
- NAF El Centro, CA
- NSA Monterey, CA
- Camp Pendleton, CA
- MCAS Miramar

### **Navy Region Southwest - Area of Responsibility**



**Figure 2.4 Navy Region Southwest [Ref. 19]**

The following commands have partnered with NRSW and are included in the regionalization process: Fleet Industrial and Supply Center, Naval Facilities Engineering Command - Southwest Division, Public Works Center, Personnel Support Activity, and Naval Medical Center. [Ref. 19]



#### **4. Regionalization Process**

The regionalization process, as envisioned by CNRSW includes the following five step process: [Ref. 19:p 1-3]

##### **Step 1: Define the BOS Function/Baseline Current Operation**

- Establish, charter, and train functional teams
- Baseline current BOS functions, costs, resources, facilities
- Determine scope of analysis
- Perform activity-based cost Analysis of Functions

##### **Step 2: Envision Regional Service Delivery**

- Develop a vision statement and goals for each function
- Propose a general methodology for attaining the vision
- Determine Customer/Stakeholder requirements
- Identify Best Practices within Government and industry
- Conduct Process Analysis for each function

##### **Step 3: Conduct Business Case Analysis of Alternatives**

- Establish alternative service delivery options
- Conduct analysis of alternatives
- Determine benefits, impact, and risks of alternatives
- Design High Level organization

##### **Step 4: Present findings and recommendations**

- Develop briefing and present findings including:
  - Goals/Vision
  - New Organizational structure
  - New Staffing requirements
  - New Performance Measures/Standards
  - Recommendations

#### **Step 5: Implement Approved Recommendations**

- Form and facilitate process action teams
- Develop detailed implementation plans
- Coordinate programming and budgeting
- Develop Inter-service Support Agreements
- Develop position descriptions and conduct required personnel actions

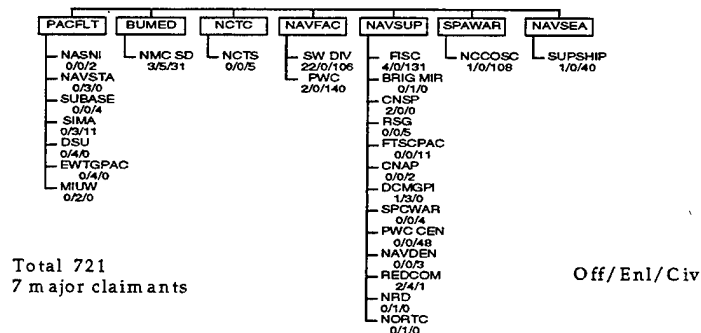
#### **5. Regionalization of Contracting Functions**

As a result of Commander, Naval Base San Diego's "Regionalization in the Navy Region Southwest" message, a Regional Executive Steering Committee (RESC) was established with the Regional Commander, Assistant Chiefs of Staff, local base Commanding Officers, and key advisors as members. The Regional Business Manager, a member of the RESC, also heads the logistics function to be regionalized which includes procurement as one of the areas to regionalize. [Ref. 19:p. 1]

A San Diego Business Case Analysis team was established to review procurement function regionalization. This team was comprised of analysts from Chief of Naval Operations (N46), FISC San Diego, Public Works Center, Naval Air Station North Island, Naval Research and Development, and Commander-in-Chief, U.S. Pacific Fleet. The team's review of the current procurement organization structure within the San Diego region is depicted in Figure 2.5. [Ref. 20:p. 6]

### **Current Organization (Function): Procurement**

➤ Definition: Provide procurement administration, support of contracts, and direct/indirect procurement functions. Diagram reflects warrant for monetary awards vice actual personnel assignment.

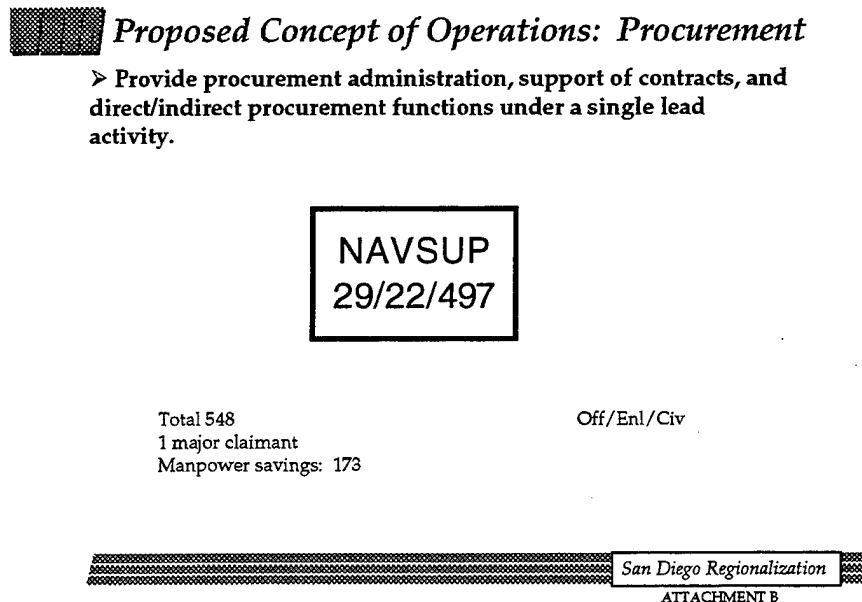


San Diego Regionalization  
ATTACHMENT A

**Figure 2.5: Current Procurement Organization Structure [Ref. 20]**

The analysis team proposed all Department of Navy procurement and contract administration within San Diego County would be transferred to a lead activity. All San Diego activities would receive procurement services from the lead activity and would not have any procurement personnel on staff and would

continue to use the purchase card to the maximum extent possible. The team found that if the proposal was implemented, potential savings of over \$9 million per year through a 24 percent reduction in contracting staff personnel could be realized. The analysis group recommended further study of possible regionalization concepts within San Diego and outlined a proposed procurement concept of operations in Figure 2.6. [Ref. 20]



**Figure 2.6: Proposed Regionalized Procurement Organization Structure**

**[Ref. 20]**

Figure 2.6 illustrates the end state envisioned by the analysis team. From a current manpower level of 721 personnel, the analysis team proposed an end state of 548 personnel, a manpower savings of 173 personnel. The manning breakdown of the proposed procurement operation would include 29 officers, 22 enlisted, and

497 civilian personnel. The new procurement organization would be responsible for "providing procurement administration, support of contracts, and direct/indirect procurement functions under a single lead activity." [Ref. 20:p. 1, Attachment B]

Part of the barriers encountered by the team were the complexity of procurement functions in the San Diego region, including different procurement types, lack of a centralized procurement system, regulatory restrictions, and multiple HCAs. The procurement activities in the San Diego procured various products and services ranging from simple purchase card transactions to large, technically-complex contracts. The regulatory restrictions issued by the multiple Systems Commands in the area, and multiple Head of Contracting Activities (HCA), ranging from command-unique contracting rules to the use of the Davis-Bacon or Service Contract Act. The lack of a centralized information management system to commit, monitor, track, and execute procurement actions due to the many legacy systems operated by the multiple contracting activities present another barrier. Finally, the multiple HCAs in the region, by the nature of their activities supporting different Navy missions help to add another barrier to the process. [Ref. 20:p. 4-5]

As a result of the barriers to regionalization encountered, the analysis team recommended further study of the procurement function in view of the significant savings potential, and that CNO N46 address possible restrictions and barriers

which would inhibit streamlined procurement operations within the San Diego region. [Ref. 20:p. 1, Attachment A]

## **G. CHAPTER SUMMARY**

As seen from the outline of the Navy's regionalization concept, the underlying goal of regionalization has been to reduce shore installation costs. This could be accomplished by reducing shore installation management infrastructure and regionalizing the procurement function under a single activity. Cost savings realized under this concept could then be reinvested in quality of life and modernization.

The San Diego regionalization effort for the procurement function requires overcoming barriers such as the complexity of the procurement function and regulatory restrictions. These two barriers may be just some of many critical factors that must be considered in a procurement function regionalization effort.

The following chapter will present data gathered from personal interviews and surveys from contracting activities located primarily in the Southwest region and supplemented with perspectives from East Coast contracting activities. The data will be presented in paraphrase format and will address concerns and primary factors that must be considered in the process of regionalizing any procurement/contracting function or activity.

### **III. INTERVIEW OF CONTRACTING ACTIVITIES**

#### **A. INTRODUCTION**

The research of the primary factors to consider in the consolidation of contracting activities in a regionalization effort requires gathering information from knowledgeable sources who will be affected by the consolidation of their contracting activities or will be major players in a regionalization effort. This research focused upon such knowledgeable contracting officers and gathered their insights on the regionalization effort through on-site, personal interviews, email correspondence, and electronic surveys.

The contracting officers who participated in the on-site interviews within the San Diego region were from major system commands such as Space and Naval Warfare Systems Command (SPAWAR), Naval Facilities Engineering Command - Southwest Division (NAVFAC), the Fleet and Industrial Supply Center (FISC SD), Naval Medical Center (NMC), and Naval Construction Battalion Center, Port Hueneme (NCBC). Electronic surveys were received from the above commands and Naval Aviation Depot - North Island (NADEP), Public Works Center (PWC), Naval Support Activity (Monterey, CA), Fleet and Industrial Supply Center (Bremerton, Washington and Jacksonville, Florida), and Naval Surface Warfare Center, Port Hueneme (NSWC). Additional source material was obtained through comments made by various speakers at the 1999 Tent Conference for Acquisition Reform held in San Diego, California on 12 May 1999, and through electronic

mail from representatives of the office of the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RDA)).

This chapter will present the comments and concerns made by the various contracting officers at the various activities regarding the potential and actual impact of the consolidation of contracting functions upon their activities within a geographic region. The interview/email comments were made in response to the primary and secondary research questions, and ad hoc commentaries on the regionalization process within the San Diego and other areas, as well as command concerns with regards to the regionalization and contracting activity consolidation.

The data will be presented in paraphrase format with references to the actual comments provided during the interviews. The major concerns and issues of each activity will be highlighted in tabular format at the end of each subsection, and summarized at the end of the chapter.

## **B. SUMMARY OF ON-SITE PERSONAL INTERVIEWS**

The following section is a summary of comments made by contracting activities within the San Diego region during on-site personal interviews. This section is broken down into five subsections, each representing comments from different commands including Fleet and Industrial Supply Center, Space and Naval Warfare Systems Command, Naval Facilities Engineering Command (Southwest



Division), Naval Medical Center, and Naval Construction Battalion Center (Port Hueneme).

**1. Fleet and Industrial Supply Center, San Diego**

The Fleet and Industrial Supply Center (FISC SD), San Diego performs contracting functions for the area, procuring a range of services and products for the Fleet, local shore commands, and other customers. As the procurement function coordinator for the Navy Region Southwest, Commander John Qua, is the key point of contact for the regionalization of procurement functions in the San Diego area.

The following section summarizes comments made by Commander Qua with regards to the contracting function at FISC SD, ongoing regionalization efforts, issues surrounding consolidation of contracting functions, factors affecting the implementation of regionalization/consolidation of contracting activities, and the future of regionalization: [Ref. 21]

***a. The contracting function at FISC San Diego.***

"We started three years ago to reduce the size of our contracting operation, which were organized around large contracts, Simplified Acquisition Procurement, and the Procurement Management Review group. Part of the organization includes three large contract divisions, with a division located at Naval Weapons Station Seal Beach and another at FISC SD Detachment Corona.

The number of personnel working at FISC SD has been reduced by 70 personnel over the past three years, mainly through attrition. We did not have the luxury of supporting excess capacity in contracting. Workload began to fall out in large contracting, and in small purchasing with the advent of the purchase cards. What you need to do is to size buyers to work, and I (Commander Qua) stood up in front of the contracting specialists (GS-1105 series) and encouraged the GS-1105 series personnel to transfer to other departments, apply for voluntary early retirement actions (VERA), or leave the Government service prior to any reduction in force (RIF) actions, that would be forthcoming. In total, seven GS-1105 series were RIF'd, six of which did not take advantage of the vibrant training program to help convert the GS-1105 to higher level GS-1102 series. Another ten were transferred to the Inventory Management department to help with customer service." [Ref. 21]

"FISC SD initiated a partnership agreement with many activities in the local San Diego area and the region to help shrink supply staffs, reduce their overhead, and provide efficiency with FISC-controlled procurement specialists. NADEP North Island, Naval Support Activity (NSA) Monterey, and Shore Intermediate Maintenance Activity (SIMA) were several activities that participated in this 'partnering' arrangement.

Of the 500 FISC SD customers, NADEP and SIMA are our biggest partners. NADEP is FISC's largest customer, and their supply department

implemented the purchase card program to reduce their workload, however, they made a conscious decision to have the supply department hold the credit cards. SIMA came on board as full partners and through the arrangement, has reduced the number of buyers required at SIMA from twelve to seven." [Ref. 21]

"NSA Monterey had initial NAVSUP contracting authority for \$100,000 several years ago. After an acquisition workload analysis to determine the type of support required, the number of buyers required were reduced from seven to two. The FISC SD partnership agreement has support on site at NSA Monterey under FISC control, however, the FISC SD team is working for the customer at the site." [Ref. 21]

"We are also working with other activities such as Naval Air Station Fallon, Nevada, to reduce their acquisition workforce and provide service through partnership agreements. Analysis of Fallon's contracting requirements showed that they produce a total of one hundred buys a year, out of which twenty-eight are in support of Top Gun requirements. Fallon has done a great job in reducing their staff levels from five buyers down to two. However, with only one hundred buys a year or two per week, we could provide kid glove service through facsimile transmissions, electronic mail, and other requirements transfer means. The problem is that there is reluctance to turn over contracting functions through partnerships due to emotions that play a big part in the issue." [Ref. 21]

***b. Regionalization/consolidation effort.***

"NAVSUP began by pulling small purchase authority from many small activities. In the years past, NAVSUP gave contracting authority to any activity that requested it. However, with the current trend towards regionalization, NAVSUP began to consolidate contracting authority and activities where it made sense and we have reduced the number from over 470 a few years ago to 114 in February 1999. We expect to achieve our goal of 65 by 1 Oct 1999." [Ref. 21]

***c. Factors affecting consolidation of contracting activities.***

(1) **Contracting is core to the mission.** "There are many factors that must be considered in the consolidation of contracting functions. Contracting as core to the mission is a key consideration. Various commands look upon contracting as core to their mission and you are interfering with their mission." [Ref. 21]

(2) **Fear of change.** "Another issue cited with consolidation is the fear of change. Everyone wants their own buyer who can figure out what they want, and how they expect to have it procured." [Ref. 21]

(3) **Contracting authority for deployment.** "Another issue was the concern about contracting authority for deployment. Naval Beach Group One stated to FISC SD that they needed contractual authority for deployment, even though they did not use it during deployment. FISC SD offered to satisfy this requirement by assignment of contractual authority on a deployment

basis and we feel that this meets the customers' need for non-routine contracting authority requirements and still allows us to effectively consolidate contracting authority." [Ref. 21]

(4) **Funding.** "Another factor cited is the potential issue of funding. As NAVFAC, PWC, and part of SPAWAR are funded by Navy Working Capital Funds, there is a charge of six to seven percent on top of the service costs to cover activity and personnel overhead. If you regionalize contracting, the manner in which each activity is funded needs to be considered in the consolidation process." [Ref. 21]

(5) **Workload.** "Workload is a major factor. How much work is an activity performing? What you need to do is to size the buyers to the amount of work." [Ref. 21]

(6) **Distance.** "In addition to the efforts to partner with our regional clients, we found that distance is another issue that can present itself as a problem with how we handle requirements. However, with the advent of direct procurement (DP) inputting via Standard Procurement System (SPS), this interface can overcome the issue of distance. The only issue that may present itself in the future is the fact that there is a limited number of DP licenses. To give a license to a small activity which can use other means of requirements transmission may be wasteful of our resources. Alternatives exist to using DP licenses such as

the use of facsimiles, electronic mail, guard mail, and other means, however, some activities are more comfortable with buyers on site.” [Ref. 21]

(7) **Emotion.** “Emotion plays a big part in the regionalization issue. FISC is seen as the big bad guy, the devil incarnate, when implementing the regionalization effort. Everyone wants their own buyer and as they look upon contracting as a core function, you are messing with their mission. The same emotion issue was also evident at FISC San Diego. Two and a half years ago, I (Commander Qua) stated to the group of contracting personnel that regionalization is not about physical consolidation but about how we can do things smarter, cheaper for the customer, and do things potentially to shrink our infrastructure. This (physical consolidation) was hard to wipe out; they could not wipe it out, and did not want to wipe it out of their perceptions. The issue was ‘regionalized’ meant FISC SD will not be around to do it.” [Ref. 21]

(8) **Technology.** “Technology is another factor that has to be considered. As we transitioned from a legacy system as Automated Procurement Acquisition Data Exchange (APADE) to Procurement Desktop Defense (PD2), you have a learning curve issue to overcome. In addition, not all the smaller activities will get PD2 and they will have to use other methods of purchase request transfer such as facsimile or electronic mail.” [Ref. 21]

(9) **Forthrightness of information.** “Forthrightness of information is another factor that must be considered. As visibility of core mission

data is hard to obtain, all stovepipes (activities who view procurement as core to their mission) may not be open to showing their databases regarding procurement activity citing core mission." [Ref. 21]

(10) **Level of knowledge.** "Another factor that some contracting officers cite is the level of knowledge required to perform the contracting function. I (Commander Qua) do not agree that the different tasks cannot be accomplished by other contracting personnel. The Davis Bacon and Service Contract acts are not that dissimilar in basic work tasks, and the GS-1102 series contracting specialists are capable professionals who can adjust and work different tasks." [Ref. 21]

(11) **Pressure from stovepipes.** "A final factor that must be considered is the pressure from stovepipes or stakeholder issues. These must be addressed when regionalizing or consolidating contracting activities." [Ref. 21]

*d. Future of regionalization.*

"In the Southwest region, we hope that we can consolidate contracting activities by workload and reduce contracting authority to six activities. The FISC and the five hospitals that are exempt through waiver from regionalization would have contracting authority. However, there will be no consolidated SPAWAR/NAVFAC/FISC or a regional contracting officer due to pressures from 'stovepipes' (parent headquarter activities). The issue that hinders this consolidation is the reluctance to have a single Head of Contracting Activity

(HCA). As for the remaining 'stovepipes', Naval Air Station Fallon will have no more buyers. There is a study ongoing at Naval Air Station Lemoore, and we will be consolidating authority with the assistance of the purchase cards and giving up contracting authority." [Ref. 21]

"According to Rear Admiral Jenkins, Deputy Director, Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition, (ASN (RDA)), the key is to focus on the contracting process. Looking at the requirements that our customers have, we can pool and place them on regional contracts through the use of consortium purchasing. This is also known as leveraged buying through pooling of contractual requirements. By using consortium buys, we can reduce the pressure to consolidate." [Ref. 21]

"A comment from a high-level acquisition executive stated that we are possibly at the danger point of consolidation. We may be getting into the bone or core of our mission areas with reductions of senior contracting personnel (GS-1102 series) and consortiums may help to take the heat off the consolidation issue." [Ref. 21]

"Rear Admiral Jenkins challenged the regional procurement group to come up with twelve contracts that would benefit from consortium leverage buys. We looked at items impacting all customers, such as ship repair, janitorial services for ships and shore installations, and information technology support as part of the twelve possible regional contracts. Other possibilities include a national contract



for information technology, which was supported by Commander-in-Chief, U.S. Pacific Fleet. However, this initiative was challenged by SPAWAR as core to their mission.” [Ref. 21]

Finally, Commander Qua reviewed the other initiatives that are being pursued including the use of web-based procurement as a viable alternative to consolidation of contracting activities. The proposal is to link up web sites through the creation of a Southwest region procurement web page. With one click, a customer can go to “construction”, which takes you to the NAVFAC link, with another click, the customer is linked to FISC for services contracts. This webpage, based upon functional specialties, would have links to other contracting activities similar to the Defense Logistics Agency's Electronic Mall concept but it would be regional by commodity, a “one stop supply shopping” concept. The benefit would be the activities would retain core knowledge and expertise, reduce workload, and retain people with contracting knowledge and experience. Creation of a Southwest Region “storefront” webpage ordering system is a future possibility using web technology developed by SPAWAR. This helps to reduce the number of places the afloat supply officer needs to go on his “wheelbook” (memo pad with list of key points of contact, and phone numbers). [Ref. 21]

A summary of the key comments from the interview with Commander Qua are presented in Table 3.1.

**Table 3.1 Summary of Comments From FISC San Diego**

Issue	Comments
Regionalization	<ul style="list-style-type: none"> <li>• Core mission/function is the key consideration.</li> </ul>
Factors to consider	<ul style="list-style-type: none"> <li>• <b>Fear of change</b>...primarily a control issue. Everyone wants their own buyer, or views contracting as core mission support.</li> <li>• <b>Workload.</b> What you need to do is size buyers to the workload.</li> <li>• <b>Type of funding.</b> Working capital funds require overhead charges on top of cost.</li> <li>• <b>Emotion.</b> Everyone wants to keep their own buyer and views FISC as devil incarnate in pursuing regionalization.</li> <li>• <b>Pressure from stovepipes.</b> Inherent pressure from internal commands to keep status quo.</li> <li>• <b>Knowledge level.</b> The contracting function requires unique, specialized information per stovepipes. Contracting 1102s are capable of performing variety of contracting actions.</li> <li>• <b>Forthrightness of information.</b> Commands do not want to provide information on procurement actions.</li> <li>• <b>Technology.</b> Some activities desire latest SPS functions but may not be cost effective for amount of contract actions. Learning curve in transition from legacy to SPS system.</li> <li>• <b>Distance.</b> Activities at a distance from regional office may require local contracting support or overcome this by use of technology (FAX/EMAIL/SPS).</li> </ul>
Future of regionalization	<ul style="list-style-type: none"> <li>• Consolidated NAVFAC/FISC/SPAWAR will not occur due to single HCA issue.</li> <li>• Regional contracting office will not occur.</li> <li>• Focus on process, best commercial practices such as consortium buys, and web-based procurement, instead of consolidation.</li> </ul>

## **2. Space and Naval Warfare Systems Command**

The Space and Naval Warfare Systems Command (SPAWAR), located near downtown San Diego, is the Communications, Command, Control, and Computer (C4I) expert for the United States Navy. As the central activity in charge of all issues regarding naval communications, and information technology, SPAWAR's contracting directorate is very knowledgeable regarding the issues surrounding a major systems command's role in the regionalization process. SPAWAR procures a range of communication and information-related products and services for the U.S. Navy, and other Department of Defense agencies.

As the contracting officer for SPAWAR, Captain Jay Cohen is one of the major points of contact for the issues regarding the consolidation of contracting activities and regionalization of commands in the San Diego area.

The following section summarizes comments made by Captain Cohen, and his contracting representatives with regards to the contracting function at SPAWAR, regionalization within the San Diego area, and key factors to consider in the implementation of regionalization/consolidation of contracting activities, and the future of regionalization. [Ref. 22]

### ***a. Regionalization within the San Diego area.***

"The push for regionalization started years ago. NAVSUP reviewed all the purchasing/buying activities and found that they had similar procurement functions in the Norfolk and San Diego areas. In the San Diego area alone, there

were ten Head of Contracting Activity (HCA) authorities, ranging from NAVSUP, NAVFAC, to the Marine Corps. From a conceptual point of view, you see overhead and overlap. You have to ask yourself a question about why are we in this situation in the first place? There has to be some sort of resistance and barriers to regionalization.” [Ref. 22]

*b. Factors to consider in the regionalization effort.*

(1) **Common supplies and services.** “The first factor you have to consider is what are the supplies and services that you are procuring for the customer?” [Ref. 22]

(2) **Workforce.** “Regionalization is viewed as a threat. Even though people say that the workforce will transfer to other jobs, etc, people are afraid of change. They are threatened by realignment, of being somewhere else than where they are now. Consequently, there is great resistance to change. Even if the HCA says to consolidate, you won't be able to effectively regionalize if you don't have agreement or buy in at the bottom. If you want to regionalize, you have to find an incentive for the workers to buy into regionalization.” [Ref. 22]

“How SPAWAR overcame the fear of change when SPAWAR HQ moved to the West Coast is how we replaced the workforce. We hired only those who wanted to move to the West Coast.” [Ref. 22]

"Procurement is also a very labor-intensive activity. We do not have a lot of automation but the activities are getting there. There is a lot of overlapping functions, but by their definition, you will have to have a reduction in workforce to get more efficient. There are several methods to accomplish that. The question is how do you manage this drawdown. We are the only command that did not have a reduction in force (RIF). Instead, we had a drawdown each year of 10 percent. We managed it correctly, and the way Rear Admiral Gauss managed it was very smart. He stated up front, "we will not have a RIF. If we have a RIF, I am quitting". He made that commitment up front and we are managing the drawdown by attrition. You have to get it across to the people to make them feel safe, not to fear the change. The only difference with industry is that it is easier to fire people. What you have to figure out in regionalization is how to incentivize your workforce. With consolidation, the problem is that the wrong people leave the organization. Automation may replace the need for lower grade contracting personnel. The effect of consolidation is that the more senior people leave, causing your knowledge base to leave, as well. What bothers some of us is that this is just another buzzword for "workforce reduction". You may change your business processes but the net result of workload reduction is just a workforce reduction. The final point is what happens to the workforce that is left

behind? What is the quality of the ensuing work environment and what do you do to incentivize them?" [Ref. 22]

(3) **Funding.** "You want to regionalize as there is savings in consolidation. You reduce overlap and become much more efficient. In terms of funding, some activities are mission funded, receiving their funds directly. While others are funded by projects on a reimbursable basis, and others are funded via working capital funding. This places another restriction upon regionalization." [Ref. 22]

"The way activities are funded now, such as working capital funds, they get their funds for their employees through fee for service. If your existence is dependent upon work placed upon your contract, then your incentive is not to regionalize but to set up your own contracts. Otherwise, you will not make any money, and you see regionalization as a threat. Another aspect of this is that the customer can take his money where he gets the best service. If the program manager feels that he can get better service from another activity such as NAVFAC, he will bypass his usual source and obtain the best service possible." [Ref. 22]

(4) **Logistics infrastructure.** "Right now, you have people spread out all over the place. We don't have the right tools and software to have a virtual network. We are working towards that. In San Diego, they are

implementing a Navy wide Internet and once they do so, we can be in a better position to implement a virtual organization.” [Ref. 22]

“Another infrastructure issue is that we are using software that is different from other commands. Information exchange is another factor that has to be considered as part of logistics infrastructure. In addition, not all the people know of all the available contracts and tools that are available for their use. If everyone knew of the tools available to them, this would help people talk to each other.” [Ref. 22]

“Another infrastructure issue is the separation of commands. How will you set up a virtual organization for such a regional activity? We are taking the approach of looking at what contracts are being used by what activities. The question is that even if we have the contracts in place, will it be used by the customers in the region?” [Ref. 22]

**(5) Resistance to change/Culture/Perception.** “I talked to another major defense department commander in the area and his perception is that the regionalized authority will not place priority to you as a customer and you will not get the same level of support. If you want to regionalize, you are going to have to provide better support. The same perception is true of command and control. A commanding officer would much rather have their own contracting office as they would have direct control. If I have to rely upon someone else, I

might not get the same level of service and control. If they regionalize, they will have to cut jobs and provide incentives to the workforce.” [Ref. 22]

(6) **Leadership buy in.** “It is good when someone says that we are going to regionalize. However, activities are less inclined to regionalize due to the fear of change and leadership’s desire to control their own destiny. If it was mandated to do it, they will regionalize and send reports of their progress but that does not mean it is being accomplished. For example, we had an Admiral who really pushed acquisition reform. He continually asked at every meeting what are we doing that makes it better, faster, and really pushing the envelope. He wanted to make sure we did things better, more quickly, and cheaper. He actually put together a study group made up of people in contracts, and other departments and the study group on acquisition reform came up with some great ideas. But the point is that the leadership was fully supportive of acquisition reform and asked on a daily or weekly basis on the status of actions for acquisition reform. As a result, we cut Procurement Action Leadtime (PALT) by 50% and implemented nearly all of the study group recommendations and we are in the lead role in acquisition reform in the area. Not only leadership buy in but active leadership involvement at the highest levels are required.” [Ref. 22]

(7) **Organizational structure of the regional procurement office.** “There are no available resources at the higher level to



incorporate the organization or implement mandates. This is not a structural reorganization. Regionalization is trying to achieve one big consolidation of contracting activities, which is not easy to achieve. Business wise, this is hard for leadership to grasp.” [Ref. 22]

**(8) Prioritization of work.** “If you have two major buys with the same level of effort, who in the region will make the call to work on which project? How is all the work going to be prioritized for the regional procurement activity? Each activity has their priority with their own procurements. The issue of contracting requirements must be addressed as a factor to consider in the consolidation of contracting activities into a regional activity.” [Ref. 22]

**(9) Bundled Contracts - Impact upon industry and Socio-Economic objectives.** “Industry has a strong voice with congress, both economical and political, and the small business group has strong advocacy on the hill. Regionalization consolidates work, making smaller contracts into large contracts, making it difficult for small businesses. This may cause a problem with bundling of contracts. SPAWAR is trying to become more efficient, and we cannot get solicitations out on the street as we try to factor the small business perspective. Especially in the larger businesses, which have a large voice with congress, they call their congressman and ask them to look at what is happening in

their district in terms of changes in practices. Now, as you look at alternative methods including going to one contract for common support requirements, this is cost efficient but it impacts the socio-economic nature of contracting. The impact upon the socio-economic nature of contracting must be considered in regionalization.” [Ref. 22]

**(10) Size of contracts.** “We may have always contracted information technology contracts for ourselves, but now we have to figure out how to do contracts for the entire region, a larger size contract. What do you have to consider in order to accomplish this?” [Ref. 22]

**(11) Costs of regionalization.** “We have contracting vehicles on the web that are not being used for funding or control reasons. The impediment for going to national contracts are the costs. For example, one region like South Carolina may have cheaper costs than San Francisco for network services.” [Ref. 22]

**(12) Information Exchange/Marketing.** “You have to sell the idea of regionalization to the leadership and get their buy in, and get the word out to the customers, industry, and all those who will be affected.” [Ref. 22]

**(13) Impediments to regionalization.** “Maybe the best way of looking at regionalization is not from the perspective of what factors need to be considered to make regionalization work but what factors impede making

regionalization work. You have to consider the fact that we have Navy-wide contracts available on the web and they are not being utilized.” [Ref. 22]

*c. Why regionalization will not work.*

“People like the flexibility of going to different places for placing contracts, not just one place for contracts. The other aspect is the customer's perception of value. They will shop around for the best value in meeting their contracting requirements.” [Ref. 22]

“The ‘Just do it’ concept of regionalization just does not happen. Take for example the issue of paperless acquisition. The statement was to go paperless by the year 2000, and we could have been 80% paperless by that time but the resources were never placed behind it. All you got was ‘just do it’. Now what you have is a 60% requirement by the year 2000.” [Ref. 22]

“You also have to contend with the funding/HCA authority issue. All the major systems commands have tenant activities in the area and they have to justify why they are here in the region.” [Ref. 22]

“The issue of control, or losing control of your own destiny is another reason why regionalization will not work. This is not only loss of control over your own contracting activity but the prioritization of work that occurs with having control over your own destiny.” [Ref. 22]

“Job security is another reason why regionalization will not work. As stated before, regionalization is perceived to be a threat to one’s job security.” [Ref. 22]

“The areas you want to stay away from are the core capabilities. We do not want to regionalize major system commands as they do not have the right expertise and interface with the program offices. However, their support services may be conducive to consolidation. In the same token, we do not see ourselves as capable of buying construction services as the right experts reside at NAVFAC. You need to find something that is common but that is not part of their core business or services. This is easier said than done. The definition of core was asked in a meeting with contracting officers in Washington DC. Naval Sea Systems Command (NAVSEA) replied ‘Ships’. Naval Air Systems Command (NAVAIR) replied ‘Aircraft’, and we replied ‘C4ISR.’” [Ref. 22]

*d. How to make regionalization work.*

“You have to look at what products you are buying. Service, supplies, and commodities are the easiest to regionalize. One product we are using is the Corporate Express contract. You order office supplies without writing a contract, and get next day service. Another area is information technology (IT) support services. We have a bunch of IT contracts as the IT specialist. We are

recommending that commands in the area utilize our IT contracts exclusively as we have good prices, and exert a lot of leverage over the contractors.” [Ref. 22]

“How can we make consolidation work? If you want to make it work, you need to place all the buying under one HCA. You could put SPAWAR as the HCA, and even though we do not know how to do construction, you would bring in the expertise to do the construction construction. The problem is you have a lot of HCAs, including NAVSUP, in the San Diego area. You have to start with one HCA for each region.” [Ref. 22]

A summary of the key comments from the interview with Captain Cohen are presented in Table 3.2.

**Table 3.2 Summary of Comments From SPAWAR San Diego**

Issue	Concern
Regionalization	<ul style="list-style-type: none"> <li>• Push for regionalization started years ago</li> <li>• Many HCAs in the San Diego region</li> </ul>
Factors to consider	<ul style="list-style-type: none"> <li>• Common Supplies and Support</li> <li>• Workforce</li> <li>• Funding</li> <li>• Logistics Infrastructure</li> <li>• Resistance to Change/Culture/Perception</li> <li>• Leadership Buy In</li> <li>• Organizational structure of the regional Procurement Office</li> <li>• Prioritization of work</li> <li>• Bundled contracts</li> <li>• Impact upon industry/socio-economic issues</li> <li>• Size of contracts</li> <li>• Cost of regionalization</li> <li>• Information exchange/marketing regionalization</li> <li>• Impediments to regionalization</li> </ul>
Why Regionalization will not work	<ul style="list-style-type: none"> <li>• Customers/activities like the flexibility of choosing their service provider</li> <li>• One HCA authority is a hard issue to accomplish</li> <li>• Funding issues</li> <li>• Fear of losing control over your own destiny</li> <li>• Job security</li> </ul>
How to make regionalization work	<ul style="list-style-type: none"> <li>• Look at product you are buying</li> <li>• Common support services contracts are easiest to tackle.</li> <li>• One HCA authority</li> </ul>

### **3. Naval Facilities Engineering Command (Southwest Division)**

The Naval Facilities Engineering Command (Southwest Division) or NAVFAC, provides construction and shore installation maintenance/repair services for the San Diego region. As another major systems command

representative in the San Diego region, they manage all Public Works Center and Resident-Officer-In-Charge-of-Contracts (ROICC) contracting personnel within the local San Diego area. [Ref. 23]

Regionalization is a major concern for NAVFAC. According to comments made during our interview, Mr. Dennis Wilkins, assistant for contracting at NAVFAC, discussed organizational issues, major concerns about regionalization, common elements of regionalization, and some future actions aimed to make NAVFAC more efficient for the customer. [Ref. 23]

*a. Contracting office organization.*

"The NAVFAC contracting organization consists mostly of contracting specialists (GS-1102 series) who work for the headquarters office. There are 110 contracting specialists at NAVFAC. Additional contract specialists are located at Camp Pendleton, Twenty Nine Palms, Barstow, El Centro and Yuma. Several years ago, these activities changed to customer-focused contracting. The contracting activities were split between locations in the north bay, south bay, and desert teams and focused upon serving customers at El Tustin, El Centro, Yuma, Twenty Nine Palms and Barstow. The contract specialists on the teams work for the commands and NAVFAC supervises them according to the Defense Acquisition Workforce Improvement Act (DAWIA). Also, we are responsible for their performance evaluations, although the contracts specialists do

not officially work for the NAVFAC chain of command. Instead, they work for the area focus teams (AFT) that we previously discussed.” [Ref. 23]

“The AFT can determine the contracting responsibilities, level of workload, manning levels, and the number of contracting technicians required. The teams are paid with Other Maintenance, Navy (OM&N) funding. NAVFAC also receives reimbursable funding for some of the contracting teams which helps to cover personnel costs.” [Ref. 23]

“The contracting authority is derived from NAVFAC headquarters, and is transferred to the Southwest division. The NAVFAC Contracting Officer signs the contracting warrants, handles policy issues, and reviews any requirements above the local contracting authority.” [Ref. 23]

“Many of our field offices can contract up to \$5 million, including modifications, depending upon the contracting requirement. Sole source requirements, however, must still be approved by the NAVFAC office.” [Ref. 23]

“The local PWCs are part of the NAVFAC organization, and their contracting personnel report directly to NAVFAC. As of 1 October 1999, all the contracting personnel in PWC will be integrated into the NAVFAC contracting organization, and work for NAVFAC as part of the new regional NAVFAC contracting office.” [Ref. 23]



*b. Common elements of regionalization.*

“We are looking at commonality in contracting functions that may exist with other contracting activities in the area who may benefit from combined buying power or common base operating support services (BOS). One area we found in common was to combine all contracting activity's requirements for Defense Acquisition Workforce Improvement Act (DAWIA) training and Procurement Management Audit Team (PMAT) services.” [Ref. 23]

“During our review of contracting actions for common services, we found common requirements in services such as grounds maintenance, gauge testing/calibration, and temporary personnel services. These services are part of the twelve consortium contracts that Rear Admiral Jenkins (ASN (RDA)) challenged the Southwest region to find as possible areas for consolidating common contracting requirements. However, we do not envision consortium contracts to affect our command unless the HCA authority issue is resolved. All contracting activities will continue to perform their core procurement mission such as construction, ship repair, and information technology. Commonality in the products we procure will be the key for achieving infrastructure savings.” [Ref. 23]

*c. Factors to consider for regionalization.*

**(1) Culture and Perception of Contracting Specialists:**

**Job Security.** “In Coronado, there are one to three contracting specialists the customer can call upon to resolve contracting issues. If the contracting specialist positions are consolidated through regionalization, the issue of job security and requirements prioritization becomes an issue for the customer. Regionalization will consolidate positions, affecting the job security of personnel assigned to the local contracting activities. In addition, the other issue will be the prioritization of contracting requirements. Who will determine the work priority of requirements received at the same timeframe, at the regional activity?” [Ref. 23]

**(2) Funding.** “Funding is another factor that must be considered in a regionalization effort. Most of the PWC contracts are funded through Navy Working Capital funds. Half of NAVFAC’s contracting work is performed using military construction (MILCON), and Operations and Maintenance (OM&N) funding from our customers. As the funding is varied, and from different sources, this must be considered as a factor in any consolidation/regionalization effort.” [Ref. 23]

**(3) Leadership buy in.** “Leadership buy-in is required to support a regionalization/consolidation effort.” [Ref. 23]

**(4) Bundling of contracts/Small Business Concerns.**  
“As we become more efficient, and competitive in our pricing strategy, we

increasingly use large Indefinite Delivery/Indefinite Quantity (IDIQ) type contracts. This leads to the bundling of contracts and increases the number of large contracts. This inherently reduces the opportunities for small businesses to compete for contracts and conflicts with the socio-economic nature of Government contracting. We began to review the impact of such contracting actions upon the small businesses.

One example of our effort to minimize the impact upon the small business is through our Multiple Award Contracts (MAC). These contracts are between \$20 million to \$40 million in scope, however, we structure the contracts to set aside a portion of the contracts for small businesses to compete.”

[Ref. 23]

**(5) Technical nature of the contracting work or interaction with other staffs.** “One of the issues that people fail to realize is that FISC SD and other contracting activities do not have a large technical/engineering staff. NAVFAC has a large engineering staff to perform construction oversight, with field offices located near the construction facilities. Our contracting specialists are extremely knowledgeable about the technical aspects of construction contracting and this requires contracting specialists who are intimately familiar with the technical issues of construction contracts.” [Ref. 23]

“Another issue is the level of contracts administration that is performed with each contract. When we award a contract for an activity, we download the data and contract directly to the site. We have people on-site that perform contracts quality checks, which may require more after-award involvement than FISC or SPAWAR issued contracts.” [Ref. 23]

**(6) Impact upon the customer.** “In consolidating contracting activities, we have to consider what will be the impact of regionalization upon the customer.” [Ref. 23]

***d. Business practices to place in for regionalization.***

“In general, the regional procurement team needs to ensure that the consolidated contracting activity is customer focused, customer driven, incorporates team-based contracting, and does not solely focus on the product. This is the concept behind our AFTs. Like an Integrated Process Team (IPT), the AFT focuses on the customer's needs, and we locate the contracting personnel near the customer.” [Ref. 23]

“In addition, the single HCA issue will have to be a slowly evolving process. You cannot combine all contracting specialists into one office or building, and ask them to do contract for every requirement. There has to be common sense recognition that you have to have a contracting group who procures

specialty requirements such as construction. Technical contracting specialists will still be required for construction requirements/issues.” [Ref. 23]

A summary of the key comments from the interview with Mr. Dennis Wilkins are presented in Table 3.3.

**Table 3.3 Summary of Comments from NAVFAC San Diego**

<b>Issue</b>	<b>Concern</b>
Contracting Office Organization	<ul style="list-style-type: none"><li>• NAVFAC to regionalize their contracting office at NAVFAC EFD with PWC, ROICC Contracting personnel</li><li>• Team based contracting located near the customer</li></ul>
Common elements of regionalization	<ul style="list-style-type: none"><li>• Commonality of functions</li><li>• Consortium leverage procurement</li></ul>
Factors to consider for regionalization	<ul style="list-style-type: none"><li>• Culture/Perception/Job Security</li><li>• Type of Funding</li><li>• Leadership Buy In required</li><li>• Bundling of contracts affects Small Business</li><li>• Technical Nature of contracts</li><li>• Impact upon the customer must be considered</li></ul>
Business practices	<ul style="list-style-type: none"><li>• Contracting should be customer focused</li><li>• Single HCA issue slow to evolve</li></ul>

#### **4. Naval Medical Center, San Diego**

The Naval Medical Center, San Diego (NMC) provides medical services for service members, families, and retired personnel in the San Diego region. As a major customer of FISC SD, they possess unique insight into regional medical

contracting requirements and the potential impact of regionalization and contracting activity consolidation. NMC is in the process of initiating large regional contracts in the TriCare Region nine area, which not only includes the San Diego region but also Central California, Nevada and Arizona. [Ref. 24]

Regionalization is a major concern for NMC. The following section summarizes comments made by Ensign David Kritschgau, Contracting Officer for the Material Management Division, NMC, regarding his concerns with regionalization in the San Diego area. [Ref. 24]

*a. Contracting Organization Structure.*

“Our contracting organization is structured by teams, with each team consisting of approximately twenty contracts specialists. The head of contracts is a Government service grade GS-13 contracting officer, and the two teams are headed by GS-11 contracting specialists. The teams are further broken down by commodity for medical equipment and maintenance services. In total, there are twelve GS-1105 procurement buyers, and five GS-1102 contract specialists. However, our activity is under constant pressure to further reduce the size of our contracting organization.

In addition to our contracting organization at NMC, we also support eleven clinics including San Clemente Island, Naval Training Center, Naval Amphibious Base, and Naval Air Station North Island.” [Ref. 24]

"Finally, our contracting authority is derived from Naval Supply Systems Command, however, we report directly to the Bureau of Medicine regarding contracting issues." [Ref. 24]

***b. Regionalization at NMC.***

"We recently completed a consolidation of our medical clinics, consolidating the clinic contracting personnel into our contracting organization. This resulted in our contracting office having only four military buyers to work on the purchase card program. By our current estimates, we will need a thirty percent increase in our contracting staff to support our current contracting requirements. If we reduce our contracting staff in response to a regional contracting activity consolidation, the net result would be a reduction in our effectiveness to fulfill our contracting requirements." [Ref. 24]

"Our local regionalization effort has placed fear upon other hospitals and clinics in the area. The hospitals and clinics now look upon us as a FISC. As we are consolidating one hundred contracts a year into several large contracts, the fear by the other hospitals is NMC will consolidate the contracting function from the hospitals." [Ref. 24]

"Part of this fear comes from our large regional contracts. We have begun to consolidate our equipment/repair service contracts into regional contracts to provide improved service, and reduce contracting overhead costs. The first

regional contract for equipment maintenance services will be implemented on 1 October 1999.” [Ref. 24]

“The driving force in our regionalization of our contracts came from the \$10 million reduction of our annual operating budget by the Bureau of Medicine. The choice was clear: reduce the staff of doctors and nurses or use the contracting process to find savings in the contracting infrastructure.” [Ref. 24]

*c. Factors to consider for regionalization.*

(1) **Funding.** “One factor to consider is the drawdown in activity funding. We have maintenance contracts that we are paying for that we did not track the performance in the past, as there was sufficient funding to sustain the contracts. The drawdown in the budget totaling \$10 million changed this practice. Our funding situation is now to the point that we are told that we cannot replace old equipment with new equipment unless the requirements are approved by the department head.” [Ref. 24]

(2) **Changes in funding thresholds.** “The increase in the Other Procurement Navy (OPN) threshold from \$25,000 to \$100,000 places additional pressure upon OM&N funding. The increase in the OPN threshold has forced us to procure previously OPN funded equipment with limited OM&N funding. To resolve this issue, we began to lease cutting edge technology...\$3 million to buy vs \$360,000 leased per year. This issue needs to be considered. As



budget thresholds increase, there may be changes in how an activity contracts for their requirements.” [Ref. 24]

**(3) Contracting authority and Shift in contracting workload.** “Contracting authority needs to be considered as a factor in consolidation. Our current level of contracting authority is the Simplified Acquisition Threshold (SAT) or \$100,000. Requirements above \$100,000 are forwarded to the local FISC for processing. This places a constraint on how we use our contracting personnel. If we had contracting authority above the SAT threshold, we could procure OPN requirements using our own contracting staff and utilize them more efficiently. However, we must now carefully review each of our requirements, and resort to new cost cutting measures such as third party billing to lessen the impact of budget cuts.

Additionally, the increase in repair maintenance costs due to aging equipment necessitate the need for regional contracts. This reduces the contracting workload and the increased use of the purchase card helps to shift workload from the contracting office to the customer.” [Ref. 24]

**(4) Core vs non-core.** “We consider medical contracting to be core to support our mission of providing patient care.” [Ref. 24]

**(5) Consolidation of contracts.** “As a teaching hospital, we must have cutting edge equipment. With older equipment, we have to perform

more maintenance and repairs. This increases equipment operating costs. As a result, we are outsourcing our equipment repair and maintenance to reduce costs. The decrease in maintenance personnel also requires increased use of outsourcing contracts to offset the workforce reductions. This equates to over one hundred fifty repair/maintenance contracts that are now in place to counter the workforce reduction and reduce maintenance costs. The consolidation of maintenance contracts into a single contract could lead to reduced contract administration costs. This consolidation of contracts or bundling of contracts into larger contracts needs to be considered in a consolidation of contracting function.” [Ref. 24]

(6) **Conflicting regional boundaries.** “We are currently operating under two regions. We work for the Navy in the Southwest region, and in the TriCare unified region, we work for TriCare Region Nine. The TriCare Region Nine consists of our medical facilities, the U.S. Army medical facilities, and Camp Pendleton. Working under TriCare Region Nine, we have an opportunity to bring all contracting requirements together and buy with volume leverage and incur savings on the regional TriCare contract. This may conflict with any regional contract that is proposed by the Navy's Southwest region and must be considered as a factor in any regionalization effort.” [Ref. 24]

(7) **Contract vehicles.** “Another issue to consider is the contract vehicle, such as the purchase card. Many of the clinics have their own

Government purchase cards. If you regionalize contracting functions, what type of contracting vehicles will you need to implement to satisfy all the contracting activities? Is the preferred contracting vehicle for consolidating the activities the Government purchase card?" [Ref. 24]

(8) **Prime vendor.** "Another issue to consider is the use of large Prime Vendor contracts. We administer the Medical Prime Vendor contracts and the clinics place their requirements through our contracting office. With regionalization, who will now administer the Prime Vendor contracts or act as the regional contracting office for medical requirements?" [Ref. 24]

(9) **Impact upon the activities.** "The impact of regionalization upon the activity must be considered as a potential factor. Our hospital would be negatively impacted by the consolidation of contracting activities. An example is the length of time it takes FISC SD to award contracts. We have direct patient care contracts which can take up to six months for FISC SD to award. The delay in contract award affects the service provided to our customers." [Ref. 24]

(10) **Distance from the regional office.** "Another issue is the distance from the contracting activity to the customer. FISC SD is located near our activity and can provide service within a short distance. As everyone in a contracting region must centrally transmit their requirements to one activity, this

may result in requirements transmission failures and concerns over the lack of a face-to-face interface with a contracting representative.” [Ref. 24]

**(11) Workforce.** “The contracting workforce must be considered in any consolidation of contracting activities. One of the key concerns is the impact to the workforce as the contracting workload decreases at local contracting activities. A reduction in force (RIF) may occur as a result of consolidating contracting activities.” [Ref. 24]

**(12) Automation tools.** “Information technology/contracting automation is an issue that must be considered in any regionalization effort. Standard Automated Contracting System for Federal Agencies, SACON, is a local legacy contracting program which provides our activity with adhoc reporting from the contracting database. The Standard Procurement System (SPS) does not provide us with the flexibility for adhoc reports that we consider essential for our activity. The information technology or automated acquisition tool provided to the centralized activity and customer must meet interface and user requirements.” [Ref. 24]

**(13) Onsite versus offsite contracting support.** “Electronic Mail (Email) and telephone does not provide the same customer interface as having a contracting representative on-site. We have had experience with transmitting our requirements via guardmail and the service provided was not

as timely as we expect as a customer. This places an additional burden upon our activity to dedicate an individual to ensure our requirements are being processed in a timely manner. On-site service allows for quicker response to the customer and must be considered as a factor in any regionalization effort.” [Ref. 24]

**(14) Fear of change.** “Another factor to consider is change, or the fear of change. The lack of control by the customer is feared when contracting activities are consolidated. It should be at the discretion of the activity where the contracting officer will work or how they will be utilized.” [Ref. 24]

**(15) Bundling of contracts and socio-economic issues.**

“Due to the reduced budget levels, we had no choice but to consolidate our contracts. By bundling our contracts, we impact the number of contracts available for small businesses to actively compete. We countered this by establishing contract clauses directing large businesses to award a portion of their work to small businesses in our large contracts. We also allow the small businesses to bid on all or a portion of the contract. The effect of bundling contracts upon the small business is a socio-economic issue and must be considered in any consolidation of contracting activities.” [Ref. 24]

**(16) Regulations.** “Another issue is compliance with contracting regulations. As a hospital, we are in competition with other commercial hospitals in the local area. We should be able to compete under the

same rules as large Health Management Organizations (HMO) and hospitals but we are constrained in how we can conduct contracting by federal regulations such as the Federal Acquisition Regulation.” [Ref. 24]

*d. Business practices to incorporate.*

“The business practices that need to be considered in any regionalization effort include the expanded use of the Prime Vendor and large, OmniBus contracts. The Prime Vendor and Omnibus contracts allow us to leverage our buying power to obtain a better price for our customer.” [Ref. 24]

*e. How to regionalize/consolidate functions.*

“One method to regionalization in the San Diego area would be to regionalize by contracting function, or commodity. For example, most of the contracts at FISC SD are awarded for common products and services. Laundry services is a common support requirement for FISC SD to consolidate or regionalize.” [Ref. 24]

*f. What can be done to improve operations.*

“An increase of our contracting authority to an unlimited level will help our contracting activity improve efficiencies and will not affect our organizational structure. We have the contracting workload, and the contracting specialists with the required training to support this requirement.” [Ref. 24]

A summary of the key comments from Ensign Kritschgau are presented in Table 3.4.

**Table 3.4 Summary of Comments from NMC San Diego**

<b>Issue</b>	<b>Comments</b>
Contracting Organization	<ul style="list-style-type: none"> <li>• Organization is Team-based</li> <li>• Supports 11 branch clinics</li> <li>• Regional contracting officer for 11 clinics</li> </ul>
Regionalization	<ul style="list-style-type: none"> <li>• Regionalized equipment service contracts</li> </ul>
Factors to consider for regionalization	<ul style="list-style-type: none"> <li>• Type of Funding</li> <li>• Changes in funding authority</li> <li>• Contracting authority/shift in workload</li> <li>• Core vs Non-Core contracting mission</li> <li>• Conflicting regional boundaries</li> <li>• Types of contract vehicles utilized</li> <li>• Impact of large contracts/Prime Vendor</li> <li>• Impact upon activity/customer</li> <li>• Distance from regional contracting office</li> <li>• Impact upon the contracting workforce</li> <li>• Impact of acquisition automation/IT</li> <li>• On-site vs off-site contracting support</li> <li>• Fear of Change</li> <li>• Bundling of contracts/socio-economic issues</li> <li>• Impact of Contracting Regulations</li> </ul>
Business practices to incorporate	<ul style="list-style-type: none"> <li>• Prime vendor/Omnibus, large contracts</li> </ul>
How to regionalize	<ul style="list-style-type: none"> <li>• By function/commodity, not activity</li> <li>• Common support services opportunity for consolidation</li> </ul>
How to improve our operations	<ul style="list-style-type: none"> <li>• Upgrade/increase contracting authority</li> </ul>

## **5. Naval Construction Battalion Center (Port Hueneme)**

The Naval Construction Battalion Center, Port Hueneme (NCBC), provides support to the numerous Naval Mobile Construction Units located in Port Hueneme, California. Located approximately 200 miles north of San Diego, NCBC entered into a partnering arrangement with FISC SD, transferring contracting functions over to FISC San Diego but retaining the personnel on site at NCBC. [Ref. 25]

Having recently implemented a contracting partnering arrangement with FISC SD, NCBC provides the unique perspective of a command that has transitioned from a local contracting activity to a command supported by a partnering agreement, similar to what may occur in the consolidation of other contracting activities. [Ref. 25]

Regionalization is an idea that has become a reality for the NCBC Supply Department. Mr. Al Chase, the Assistant Supply Officer for NCBC, provided the following comments on NCBC's contracting organization, consolidation of supply functions within the Port Hueneme area, and factors to consider for regionalization. [Ref. 25]

### ***a. NCBC supply and contracting organization.***

“Several years ago, our previous Supply Officer reviewed our Supply Department functions to determine how to improve operational efficiencies of the



department. A Business Case Analysis (BCA) was conducted on the entire Supply Department. The procurement division was determined to be the test case for partnering with FISC SD to achieve cost savings. We established a partnering memorandum of agreement, implemented contracting action guidelines, and realigned the contracting personnel left behind. Partnering became one of many methods to help reduce our overhead costs." [Ref. 25]

"Partnering is not a new idea. FISC San Diego implemented partnering with contracting activities located outside the San Diego area to help the local contracting activities reduce overhead costs. In our partnering arrangement, we reimburse FISC SD for their contracting services and provide FISC SD with the contracting workload. This partnering agreement enabled our command to reduce our contracting staff from nineteen to five buyers. We were required to retain our own contracting supervisor since FISC San Diego did not find a need to provide a contracting supervisor located at NCBC to oversee the FISC SD detachment." [Ref. 25]

*b. Consolidation of supply functions within the Port Hueneme area.*

"With regionalization a reality for our region, we began to review other local commands for commonality of functions and found Naval Air Station Point Mugu also retained a supply department similar to NCBC. We merged our

supply operations with Naval Air Station Point Mugu and the NCBC Supply Officer has become the combined Supply Officer for both activities. Another factor that helped to drive this consolidation of departments was the assignment of the NCBC Commanding Officer as the local regional commander. All BOS functions are now under the cognizance of NCBC.” [Ref. 25]

*c. Factors to consider for regionalization.*

“Factors to consider in any regionalization effort includes: workload, technology, contract type, distance/customer interface, funding/HCA authority, control/communication, culture, overhead costs, leadership buy in, process orientation, and perception.” [Ref. 25]

(1) **Workload.** “Regardless of the regionalization and partnership efforts, our contracting workload has continued to decrease with the increased use of Prime Vendor contracts and the Government purchase card. As a result, we reduced the number of buying positions at our activity. In addition, reductions in our reimbursable funding has also reduced our contracting workload, mandating the use of reduction in force (RIF) authority. Most of the contracting personnel who were RIF'd found similar positions at the local NAVFAC contracting office. Our contracting officer transferred to another activity on the East Coast and several contracting specialists chose to leave federal service.” [Ref. 25]

(2) **Technology.** "The implementation of the purchase card impacted workload in contracting and retail supply. Another technology issue that needs to be considered is the implementation of acquisition automation. The implementation of Standard Procurement System (SPS) presented a challenge for our activity. As an activity with SPS may have to transfer requirements electronically to a central activity, the application of such a technology must be considered prior to any implementation of a regional contracting activity. To prepare for such a situation, we are conducting a Seabee mobilization exercise in the near future to test the viability of transferring our requirements via electronic means using SPS or other means such as facsimiles and electronic mail." [Ref. 25]

(3) **Contract type.** "We have a Prime Vendor contractor who supports our need for construction materials, plumbing, and lumber. As a result of increased use of Prime Vendor contracts, and the purchase card, this has greatly reduced the contracting workload of our buyers." [Ref. 25]

(4) **Distance/Customer Interface.** "Our activity is located approximately 200 miles north of FISC SD. It takes an extra day in Procurement Action Lead Time (PALT) to process our requirements, as we must Federal Express our requirements over \$10,000 with attachments (drawings, plans, etc.) to FISC SD. The issue of time and distance must be considered in a regionalization effort to ensure the regional activity can meet the requirements of

activities separated by large distances from the regional contracting activity. A large contracts specialist in the local area would allow the customer to have a local customer representative to review any technical requirements that may have to be addressed.” [Ref. 25]

(5) **Funding/HCA authority.** “In our region, there are several activities with contracting offices including the Naval Air Warfare Center (NAWC), NCBC, NSWC and NAVFAC. Each activity is funded separately, either by direct mission support, reimbursable, or Navy Working Capital funds. In addition, each activity obtains their contracting authority from different Heads of Contracting Activity (HCA) and the issue of funding and HCA authority must be considered in any regionalization effort.” [Ref. 25]

(6) **Control/Communication.** “The command hierarchical issue is of concern for local commanding officers. Regionalization results in a loss of control from the commanding officers who face a shrinking scope of authority. This perception of a loss of control did not manifest itself at NCBC during the regionalization process as NCBC had already developed a good relationship with the project office in San Diego. A good working relationship and open communication helped to overcome control issues. However, the perception of losing control and ensuring communication must be addressed by a regional procurement team considering consolidation of contracting activities.” [Ref. 25]

(7) **Culture.** "The command culture of contracting activities is another factor that must be considered in a regionalization effort. For example, in our region, NCBC and Naval Air Station Point Mugu were two separate commands and even after the merger of the two supply departments, there are the cultural aspects of the two commands that prevails to this day. This stems from the inherently different perspectives from an aviation versus a Seabee-related activity." [Ref. 25]

(8) **Overhead costs.** "Another issue that must be considered are overhead costs. Some activities charge fees as a means of funding their activity. This adds to the overhead costs incurred in a region and must be addressed." [Ref. 25]

(9) **Leadership buy-in.** "The support of the command leadership is a factor that must be considered in any consolidation of contracting activities. As an Assistant Supply Officer, I must show support for our effort to partner with FISC SD. If I show any hesitation in support or do not embrace the process, how can I expect my personnel to embrace the change? The buy-in of the senior leadership and continual support of the senior leadership is important in any regionalization effort." [Ref. 25]

(10) **Perception.** "The issue of perception must be addressed in any regionalization effort. There was a perception in our region that

the emphasis placed upon regionalization differed for each region. The perception by the local activities was that the West Coast was implementing regionalization to the maximum extent possible while other regions placed less emphasis upon regionalization.” [Ref. 25]

“From the perspective of the customer, the perception of our partnering arrangement with FISC SD has been positive overall but this is because the customers are continuing to work with the same contracting specialists. However, we expect this perception will change if there is a problem and the customer must now interface with FISC SD over the phone, instead of the local contracting office. This is an important factor that must be considered in any consolidation of contracting activities as the customer’s perception will provide a key metric for the success of the regional contracting organization.” [Ref. 25]

**(11) Process orientation.** “The regionalization effort should be based on a contracting process that is analyzed for efficiency and effectiveness. A business case analysis (BCA) is one of the tools that will help you implement regionalization of contracting functions. Unfortunately, tools are only as effective as those applied and when we implemented regionalization, it was not determined that a BCA would be required as the regionalization process was viewed as a mandated change, not a process oriented review.” [Ref. 25]

A summary of the key comments from Mr. Al Chase are presented in Table 3.5.

**Table 3.5 Summary of Comments from NCBC Port Hueneme**

Issue	Concern
NCBC Supply/Contracting Organization	<ul style="list-style-type: none"> <li>• Conducted BCA to determine best course of action for consolidation of contracting activity</li> <li>• Partnered with FISC SD to overcome contracting workload reductions</li> <li>• Contracting activity manning reduced from 19 to five contracts specialists</li> </ul>
Consolidation of supply functions in the Port Hueneme area	<ul style="list-style-type: none"> <li>• NCBC and Naval Air Station Point Mugu combined supply operations</li> <li>• All BOS functions consolidated under NCBC</li> </ul>
Factors to consider for regionalization	<ul style="list-style-type: none"> <li>• Level of contracting workload</li> <li>• Technology – purchase card/SPS</li> <li>• Contract type</li> <li>• Distance/customer interface</li> <li>• Type of funding/HCA authority</li> <li>• Loss of control/communication</li> <li>• Cultural differences</li> <li>• Overhead costs</li> <li>• Leadership buy-In and support required</li> <li>• Perception of customer</li> <li>• Process orientation</li> </ul>

## C. SUMMARY OF ELECTRONIC SURVEY RESPONSES

This section provides the responses to the primary and secondary thesis research survey questions from various contracting activities located in Naval Regions Southwest (San Diego, California), Southeast (Jacksonville, Florida), Northeast (Bremerton, Washington), and MidAtlantic (Norfolk, Virginia).

The typical comments cited on the surveys will be presented in paraphrase format for each survey question below:

1. **Question: How are the contracting functions aligned within your region and are they in direct support of your command's mission, or are they aligned by functional divisions of a command/unit?**
  - For FISC Site Detachment NADEP, the contracting functions are performed by the FISC contracting department. We are not constrained to utilize them as our only source of contracting, and other sources are available locally including SPAWAR and the Defense Logistics Agency. The only direct support we receive are for items under \$2,500 that cannot be bought via credit card. All other contracts are centrally managed at the main FISC contracting office. [Ref. 26]
  - FISC San Diego's contracting function is aligned under the NAVSUP SYSCOM organization in support of NAVSUP contracting mission. [Ref. 27]



- FISC Puget Sound is mission funded by NAVSUP Headquarters to provide contracting services for supplies and services in the region. Our contracting organization is divided into large contracts and Simplified Acquisition Procedures (SAP) divisions. The large contracts division consists of customer advocates assigned for major customers, and GS-1102 series contracting specialists doing large contract work. The SAP division consists of two branches: Shore Support branch, and WESTPAC branch. The Shore support branch supports Naval Station Bremerton and Puget Sound Naval Shipyard. The WESTPAC branch supports pierside and WESTPAC customers. These “storefront” contracting offices are located near the customer where it makes sense. [Ref. 28]
- FISC Puget Sound's contracting organization has undergone some changes and we reduced the number of contracting activities in the PACNORWEST (with contacting authority) from forty to six including the following: [Ref. 28]
  - FISC Puget Sound - Unlimited authority, 42% of dollars awarded and 75% of transactions
  - Engineering Field Activity, NW - Unlimited authority, 48% of dollars awarded
  - SUPSHIP Seattle - Unlimited, 7% of dollars awarded
  - Naval Undersea Warfare Center, Keyport, \$500,000 threshold, (FISC Puget Sound does all work above \$500,000)
  - Naval Hospital Bremerton - \$100,000 threshold (FISC Puget Sound does all work above \$100,000)
  - Naval Hospital Whidbey Island - \$25,000 threshold

- FISC Jacksonville is aligned by major claimant and satellite locations. Each claimant's region is different and they handle each operation in a unique manner. FISC Jacksonville (FISC JAX) has a main operation at FISC JAX, with partnered satellite operations managed at each site. [Ref. 29]
- The small procurement division at Naval Construction Battalion Center, Port Hueneme (NCBC) has been partnered with FISC San Diego, relinquishing all contracting workload to the on site FISC San Diego Detachment. This was implemented primarily due to reductions in contracting workload that were experienced as a result of increased credit card and prime vendor usage. The number of contracting personnel decreased from nineteen to five contracting specialists in 1996. The five remaining employees were transferred to the FISC Detachment in 1997, but remained physically located at NCBC. The number has subsequently been reduced to four as the result of additional workload reductions. We have also merged all BOS functions of NCBC and Naval Air Warfare Station Point Mugu under the commander of NCBC. This resulted in a combined supply department for both commands and consolidated all procurement functions at both sites. Any procurements over \$10,000 are transmitted to FISC San Diego. Additionally, FISC San Diego provides contracting guidance, training, and direction, as well as frequent site visits. [Ref. 30]

- SUPSHIP's contracting function is aligned with our command mission to provide ship repair and construction services to the fleet. [Ref. 31]
- Public Works Center Norfolk (PWC NORVA) currently contracts for all of its support requirements. As of 1 October 1999, this process will change as we transfer our contracting function to the NAVFAC Atlantic Division. [Ref. 32]
- PWC San Diego is aligned with NAVFAC San Diego under their rules and regulations. Our contract function and contracts administration is centralized in our office, with execution decentralized into forward-deployed site teams located near the customer. For all other supply requirements, the local FISC provides for our contracting functions. [Ref. 33]

**2. Question: What are the primary products/services procured within a typical naval region by your activity and what contracting methods and/or vehicles are used to procure your goods and services?**

- The primary products and services that are contracted for the NADEP activity in San Diego or provided through various contract vehicles are listed below by product and contract vehicle: [Ref. 26]

**Table 3.6 Summary of NADEP Products/Contract Vehicles**

<b>Product</b>	<b>Contract Vehicle</b>
Aircraft parts	Fixed Price Contracts, General Services Administration (GSA), Blanket Purchase Agreements (BPA)
Pre-Expended Bins (Less than \$50)	Industrial Prime Vendor (IPV) Pre-Expended Bins (PEB) managed by Defense Industrial Supply Center (DISC)
Tools	GSA
Raw Stock	FISC IPV, GSA, BPA
Bearings	FISC IPV
Electrical, Electronic Component	FISC local contracts
Hydraulic Components	FISC local contracts
Consulting Services	GSA Management, Organizational and Business Improvement Services Schedule (MOBIS), FISC local contracts
Large service contracts	FISC local contracts, NAVAIR contracts

- FISC San Diego procures a wide range of goods and services for over 500 customers in the Southwest region and beyond. We use a wide variety of methods/vehicles from commercial methods to purchase cards, Firm Fixed Price to Cost Type contracts, and provide SAT support to our regional customers. [Ref. 27]
- FISC Puget Sound procures roughly \$179 million dollars in total contract actions for the Northwest region. Approximately \$115 million dollars of this were in large contracts, and the remainder of contract actions were satisfied

through SAT procurements. The SAT procurement division contracts the largest volume of SAT transactions of all the NAVSUP Field Contracting activities, procuring for the Puget Sound Naval Shipyards such requirements as technical specifications, and configuration control. Our large contracts division procures for commercial services, both technical and engineering in nature, and we recently awarded a five year \$184 million contract for Naval Undersea Warfare Center. Service contracts range from mess attendant services to commercial industrial services. We consider service contracting our core competency. Large supply contracts range from nuclear plants for nuclear carriers to capital industrial equipment for the Puget Sound Shipyard. [Ref. 28]

- FISC Jacksonville procures approximately \$70 million dollars in supplies and services for our regional customers as the regional FISC. Almost all of the requirements consist of Firm Fixed Price commercial contracts or purchase orders. A large percentage of aircraft support is in direct support of the local NADEP and aircraft squadrons. Additionally, we provide contracting support for the fleet in Mayport, FL. [Ref. 29]
- The logistics department at NCBC, the former supply department, supports four active and six reserve Seabee battalions, air operations at Point Mugu, and a number of large and small tenant commands. Procurements under \$2,500 are accomplished by the individual customers utilizing the approximately 300 Government purchase cards in use. In addition, there are Prime Vendor

contracts in place for commodities such as subsistence, automotive parts, and construction materials. These contracts are utilized directly by our customers. Public works type service/construction related contracts are contracted by the Naval Facilities Command contracting office. NAVSUP DD 1155 purchase order contracts under \$10,000 are contracted locally by the FISC detachment and all other requirements exceeding \$10,000 are sent to FISC San Diego. [Ref. 30]

- SUPSHIP contracts for ship repair, new ship construction, and administration of those contracts, utilizing both fixed price and cost type contracts for ship repair. Our cost contracts are usually for a five-year duration and our fixed price incentive contracts are used for new ship construction. [Ref. 31]
- Our contracting activity at PWC NORVA primarily procures facilities maintenance requirements. We use various types of contracts and methods of procurement. [Ref. 32]
- PWC San Diego's two main products and services are facility support services, and facility support construction contracts for Navy and Marine Corps clients. To procure these requirements, we utilize fixed price contracts with indefinite quantities. In FY 1998, we awarded in excess of \$145 million dollars worth of contracts, with half of the requirements for construction contracts and the other half for service type contracts. [Ref. 33]

**3. Question: What products/services would benefit from the use of new contracting methods or vehicles, such as a national Omnibus contract, new PRIME VENDOR contracts, or expanded purchase card limits that would help your activity become more efficient or reduce workload for your contracting staff?**

- The bottom line in any production environment, is the speed and the cost by which NADEP San Diego can deliver parts to the production line. Faster, cheaper, and better serves are our guidelines for contracting success. Any new contract vehicle that will allow us to buy directly from manufacturers is a good solution, such as Prime Vendor awarded directly to a manufacturer, and not to a broker, which on a DISC Pre-Expanded Bin (PEB) contract charges a 7% overhead surcharge on every purchase. By procuring directly through the manufacturer, we can exercise speed, cost efficiency, and better service. Another new contract vehicle that can help our activity is to contract with local manufacturers that charge at point of consumption. [Ref. 26]
- Another new contracting vehicle that will help NADEP San Diego is to implement local Prime Vendor contracts that brings the Prime Vendor contractor inside the plant and makes the material available based on the sharing of production schedules and bills of materials (strategic vendor partnerships). Another type of Prime Vendor-type contract would be to implement an Omnibus national contract with manufacturers of hardware items generally found in aircraft (military and commercial). [Ref. 26]

- We at the FISC in San Diego can and do write regional goods and services contracts that customers may order from with their credit cards. Sometimes we do use a national contract or schedule because best value in those instances is a quick solution and we look for solutions that meet the customers needs for best value contracting. [Ref. 27]
- FISC Puget Sound is using Prime Vendor contracts for provisions and medical. One new concept has Puget Sound Naval Shipyard (PSNS) using Direct Vendor Delivery (DVD) for sheet metal and stock. We currently have regional contracts in place for SERVIMART, mess attendant, oily rag recycling, laundry, transportation, etc. Another initiative we are working on includes expanding the DVD contracts for Bachelor Quarters furniture, and implementing a new Pre-Expend Bins Prime Vendor contract for Puget Sound Naval Shipyard. [Ref. 28]
- FISC Jacksonville feels that there are not many products or services that would benefit from new Omnibus contracts as we evaluate all purchases for applicability to regional type contracts or requirements.[Ref. 29]
- The possible expansion of Prime Vendor contracts to include heavy equipment repair parts would enable Naval Construction Battalion Center (NCBC) to become more efficient. We are working with a Prime Vendor contractor on an initiative to establish a contract for mobilization surge requirements. [Ref. 30]



- The expansion of purchase card limits would be of the most use to PWC Norfolk's customers. [Ref. 32]
- Expanded purchase card limits, and resolution of labor issues associated with Davis/Bacon Act and Service Contract Act thresholds would be of most benefit to PWC San Diego. [Ref. 33]

**4. Question: Is the scope of work performed by your command within a geographic region conducive to consolidation of contractual authority/function? What benefits or detriments would result from consolidating part or all of your contracting function?**

- The consolidation of contractual authority is not conducive to NADEP San Diego's production line operation. Production lines are measured on strict metrics of cost, turn around time, and labor expended. NADEP San Diego's experience indicates that the metrics of a regional or centralized function do not necessarily correlate with those of other organizations. While one may maximize the procurement functions to meet regional contracting metrics, it is the opinion of NADEP San Diego that a sub-optimization of production line requirements occurs at the same time. [Ref. 26]
- The centralization of procurement can work if it is treated as a matrix organization. Each site should have a group of contracting specialists that understand the unique aspects of each customer's mission, but they would be controlled by the centralized contracting shop for training, manning, and auditing purposes only. [Ref. 26]

- We at FISC San Diego could consolidate service contract requirements and SAP contracting requirements. [Ref. 27]
- FISC Puget Sound believes that the storefront presence at remote customer sites are essential to providing good customer support and for the customer to be able to reach out and touch a buyer. However, due to budget cuts, we have reduced the scope of our contracting staff from 102 to 82 personnel, with more decreases expected in the future. SAP work has decreased 10% over last year and large contracts is flat. The pressure will be to consolidate our contracting specialists to reduce costs and attendant overhead, and reduce or eliminate the physical storefront and use Information Technology infrastructure to support customers with web-based status and communication systems. This idea is similar to a virtual mall or storefront. [Ref. 28]
- Yes, the scope of work at in FISC Jacksonville's region is conducive to consolidation. The issue is to obtain claimancy participation in the consolidation. There would also be some training issues that have to be addressed for the GS-1102 contracting series specialists who will be purchasing different commodities. There are definite economies of scale and reduced overhead attributed to consolidating contracting activities. [Ref. 29]
- Physical consolidation of contracting activities beyond partnering would take us too far away from the local "face to face" service now being provided to our customers. While it may be feasible, we cannot eliminate the desire and need

to satisfy the customer, which requires some level of personal contact. In recent years, we have been trained to treat our customers as "customers" and run the Government like a business. Until it is determined that our customers are no longer customers, but are simply other Government employees, we will need to continue some level of face to face contact. [Ref. 30]

- No, the scope of work at our activity is not conducive to consolidation. The procurement/contract administration function at SUPSHIP is a vital part of our organization's mission. The primary mission of SUPSHIP contracting office is to procure and administer ship repair and construction contracts. To have a regional office do this for us does not make sense as it detracts from our authority, and reduces responsiveness to our contracting needs. The only way a commanding officer could address responsiveness/resources is to request this from the regional contracting activity. The other issue related to this is location. Having your contracting function being accomplished at a location away from the waterfront would be more than inconvenient, it would delay action. At SUPSHIP, we have numerous contracts which require action to be taken immediately. The slow responsiveness of a regional contracting organization removed from the waterfront would just not be able to react within our time requirements, which is within an hour in some instances. In addition, the unique nature of the SUPSHIP mission would make it difficult for a regional contracting organization to handle, especially with the constant need for

coordination with the ship, ship surveyors, the contractor, safety, finance, quality, etc. [Ref. 31]

- PWC Norfolk has already begun to reduce the scope of our contracting work through consolidation of our contracts regionally through NAVFAC Atlantic Division. [Ref. 32]
- Our contracting activity is currently undergoing consolidation with NAVFAC EFD, with a target consolidation date of 1 Oct 1999. The potential benefits from this consolidation include consolidation of assets, process improvement, reduced requirements transfers, and cross training for our contract personnel. [Ref. 33]

**5. Question: What decisions and resources may be required to effectively centralize contracting functions?**

- Some decisions and resources that may be required: What type of organization structure is desired for the centralized contracting office? Make a decision to centralize the contracting organization as a matrix organization, with each site retaining a group of contracting specialists who understand the unique aspects of each customer's mission but is controlled by the regional contracting activity for training, manning, and auditing purposes. [Ref. 26]
- One decision we may have to make is whether we have achieved as much physical consolidation as possible in the regions. Further consolidation, even in our own hierarchical "stovepipes" will sub-optimize our contracting

functions. That is why RADM Jenkins' idea is focusing on bringing like requirements to the table regionally (consortium buys). We can then write regional contracts that leverage all our customer's requirements. Unless the CNO mandates the continued physical consolidation of contracting offices, the contracting offices will continue to be retained under the "core" mission argument against consolidation. [Ref. 27]

- The decision that needs to be made is how do we reduce overhead costs through regionalization and where will these reduction in costs come from? Another question that needs to be asked is should virtual storefronts be utilized to replace physical storefronts? [Ref. 28]
- The major decisions that need to be made include the following. Where will HCA authority from major claimants be derived for the regional contracting activity? What connectivity issues exist among the geographic locations? How will small business concerns be addressed in the regionalized area? What level of technology is required to facilitate regional contracting? The required contracting personnel actions could be handled easier if all contracting issues were under the control and management of one activity. Who will determine the assignment of one controlling HCA activity? [Ref. 29]
- The workload reductions as a result of alternate procurement methods such as Prime Vendor and the purchase card resulted in the majority of reductions in procurement personnel. The elimination of the GS-13 contracting officer billet

was the direct result of the partnership/regionalization. The development of a standard procurement system had already been accomplished across the Navy and NCBC was scheduled to receive it at some time whether or not a partnership was achieved. There were a number of contracting process changes that had to occur to effectively accomplish procurement actions over \$10,000. Taking these issues into account, what type of automated procurement system will be required for a regional contracting activity, what level of contracting workforce is required, what type of contracting process will be in place, and as delays occur in processing out-of-area requirements, how will those requirements be processed at the regional procurement activity. [Ref. 30]

- SUPSHIP cannot be effectively centralized. [Ref. 31]
- Our contracting function at PWC NORVA is being consolidated at this time. Some decisions that need to be made include how will the considerable personnel management required be managed and how will the information technology systems be linked, such as SPS, for a regional concern. [Ref. 32]
- A plan of action is required to address the following issues: personnel, contracting process, transfer of contracting personnel, funding, and type(s) of information systems. [Ref. 33]

**6. Question: To what extent will the centralization of contracting activities affect the organizational structure of your current contracting activity(s)? Your customer(s)?**

- Centralization of contracting will affect NADEP San Diego greatly. If the San Diego area consolidates all contracting activities, the central contracting activity's location and staffing will certainly change. As a customer, the question will be 'Who does my contracting and how far from my activity do I have to travel in order to support my requirement'. [Ref. 26]
- FISC San Diego believes that the region has achieved as much physical consolidation as possible. Further consolidation, even in our own hierarchical "stovepipes" will sub-optimize the contracting process. Further consolidation will not occur so it will not affect our organization. However, the consortium leveraged buying strategy will give us some flexibility to deal with personnel reductions in our organization in the future. Our customers will continue to retain their own contracting officers. Physical consolidation will drive the customers to seek other contracting offices that can handle their work, if consolidation eliminates their contracting office. [Ref. 27]
- Due to budget cuts, our contracting activity has decreased from 102 to 82 contracting specialists with more cuts expected in the future. SAP work has decreased 10% over last year and large contracts is flat. The pressure will be to consolidate contract specialists to reduce costs and attendant overhead, and subsequent pressures to eliminate physical storefront and use information technology infrastructure to support customers with web-based status and communication systems. The question that needs to be asked is how do we

reduce overhead costs and where will these cost reductions come from? Will a virtual storefront be utilized to replace physical storefronts? [Ref. 28]

- Centralization of contracting activities would just change who is working for whom. The customer could experience reduced levels of service. A centralized office would standardize processes and look for efficiencies, which could affect certain customers currently receiving close preferential contracting treatment. [Ref. 29]
- Workload reductions and regionalization with FISC San Diego resulted in significant reductions and realignment of the procurement function at NCBC. However, procurement personnel remained at NCBS which prevented some of the anticipated customer service problems. For the most part, the customer has been unaffected for requirements under \$10,000. There is some additional delay for those requirements between \$10,000 and \$25,000 because the requirement has to be sent to FISC San Diego for signature. Requirements over \$25,000 have suffered the most as they are negotiated and signed in San Diego and the customer must communicate directly with personnel in San Diego. [Ref. 30]
- Consolidation of contracting activities would be devastating to both SUPSHIP and to SUPSHIP's customers. It would destroy all effectiveness and reduce efficiencies for our activity and our customer. A prime example of how we may experience reduced efficiencies and effectiveness is to look at how



streamlining has reduced the effectiveness and efficiency of an activity such as the Defense Accounting and Finance Service (DFAS). [Ref. 31]

- PWC Norfolk's contracting organization will dramatically change as it consolidates with the NAVFAC Atlantic Division contracting organization. [Ref. 32]
- When we consolidate contracting functions, we must ensure that our customers understand the centralization concept. How the organization will be structured must be understood by customers and contracting specialists. Another concern that must be addressed is whether the consolidation's impact upon the customer can be addressed by the contracting systems? Consolidation also impacts how Government personnel communicate internally as well as interdepartmentally. [Ref. 33]

**7. Question: Are there any major issues or barriers to implementing the recommendations contained in the Navy Contracting Organization Alignment Study Team (NCOAST) study?**

- FISC San Diego modeled part of our business case analysis study after the NCOAST study and we generated the same results, which was that there were no results. The NCOAST study provided the system commands and claimants with a "contracting is core to our mission" barrier for not consolidating contracting activities. [Ref. 27]

- SUPSHIP's regionalization Quality Management Board (QMB) reviewed the NCOAST study and concluded that it is not feasible to adopt the study in our region. [Ref. 31]
- We must have individual system commands (SYSCOMs). Each activity has different contracting responsibilities and we cannot force SYSCOMs to consolidate their local contracting activities at the regional level as this must be directed by the respective SYSCOMs in Washington D.C. [Ref. 33]

**8. Question: What business practices or rules of contracting will be required to ensure the right product and services are procured by a regional/centralized contracting activity?**

- Based upon the large number of contracts that we utilize at FISC Detachment Site NADEP and NADEP, the rules and practices are too large to list here but some considerations that need to be reviewed are listed below: [Ref. 26]
- We may have to pay more for a part in the short term in order to save total repair dollars and turn around time in the long term. For example, one reduction in turn around time will save 15% of repair and inventory positioning cost. Paying \$3,000 more for a part that I can receive tomorrow could save more money in the long run.
- Safety of flight/weapons systems configuration restrictions and unique original equipment manufacturers drive us to sole source contracting.

- All contracting activities need to align their contracting business rules. We are directly affected by NAVSUP, NAVICP, NAVAIR, and FISC and the different business rules that each activity applies to our command.
- We need to look for services that could be suitable for regional or consortium contracts. We are currently working on a temporary personnel services, ship repair, meters and gauges calibration, and training services contract to apply the consortium buying concept. In addition, we need to bring all the regional requirements to the table and write one regional contract that customers can utilize. [Ref. 27]
- Ensure a Business Case Analysis (BCA) is completed to make sure centralization of contracting activities makes logical sense. A DLA or GSA awarding Prime Vendor/Direct Vendor Delivery contracts is not the way to accomplish centralization. The same applies to regionalized contracts. There are too many unfulfilled expectations with regionalized contracts. [Ref. 28]
- The contracting processes in place by each claimant to support unique customers would need to migrate to the new regional organization. [Ref. 29]
- Communication is the key element to ensure the correct items are procured when dealing with off-site customers. It will be important for the contracting specialists to develop a relationship with the customer and have an appreciation for their needs. The customer will have to be more meticulous in describing their requirements to prevent misprocurement. [Ref. 30]

- No special rules or practices would be needed for our activity. However, SUPSHIP contends that centralization is not effective, practical, or efficient due to the unique nature of our command's mission. [Ref. 31]
- Continued communication with customers is the most effective way to measure contracting performance. [Ref. 32]
- According to one respondent:
  - Improved communications and information technology systems are crucial for an efficient and effective centralized contracting activity.
  - Improved procurement methods will be required for a centralized contracting activity.
  - The centralized contracting activity must understand value analysis, cost and technical tradeoffs, and their contracting specialists must possess good business skills. In addition, training in these areas is crucial for the success of meeting the customer's requirements. [Ref. 33]

**9. Question: Understanding the critical factors involved in the centralization issue, what strategy can we employ in any generic regionalization effort?**

- NADEP San Diego believes a sound centralized/regionalized contracting strategy will consist of two factors: [Ref. 26]
  - Support customers via a matrix organization. Each customer should have a contracting specialist who will act as their central point of contact and they will be controlled by the centralized contracting activity.

- Utilize a mixture of contracting vehicles that are tailored to meet the variety of customer requirements.
- The strategy to implement is to utilize consortium contracting, as we will never physically consolidate contracting offices into a regional office. [Ref. 27]
- When contracting authority is revoked, the natural tendency is to want to partner with the contracting activity to provide on-site support. Before the centralized contracting activity agrees to a memorandum of understanding to absorb the full time equivalents from the contracting activity, a realistic business case analysis must be accomplished to ensure that the workload supports onsite contracting support. We must have the courage to say no when it does not make sense to establish a new physical storefront. Many small contracting activities are only doing credit card work. If the workload isn't there, the contracting activity will ultimately have to perform a reduction-in-force, or voluntary early retirement of the workforce. In addition:
  - Ensure that the information technology infrastructure is robust enough to support the remote activities before you commit to a partnership agreement.
  - Create a customer advocacy program. Be proactive, and call upon your customers, and help train them to become more effective customers.
 [Ref. 28]

- Initially, place all contracting specialists in a function at the current location but reporting to one central activity. Second, evaluate the existing contracting processes, workload, and consolidate, as required, to effectively manage the function. [Ref. 29]
- It is important to begin planning and communicating early in the regionalization process. Do not withhold information from the employees. When we regionalized, it was a new and different idea met with a lot of skepticism. Now, people are used to the idea of regionalization. Try to find ways to help people maintain their dignity in the transition. Understand that there will probably be a real or perceived reduction in service level. Distance between the customer and the regional contracting office will cause communication problems. To resolve these issues, bring both the customer and the contracting specialists into the change process. [Ref. 30]
- The bottom line is any regionalization should be done based on true and honest projections of efficiencies, not just trying to fit a round peg in a square hole. One method of consolidation is to establish a matrix type organization that is controlled by one regional activity. This consolidated contracting office would have policy and general contracting functions at its location but would furnish GS-1102 series contracting specialists to other commands and the contracting specialists would report directly to the commanding officer of the SUPSHIP, SPAWAR, etc. However, trying to make the matrix concept work among

several system commands may be impossible. Some of the same problems plus probably more exist with this arrangement. It might result in some overhead savings and should preserve most of the current effectiveness levels. However, effectiveness would suffer from the current levels because the serviced command loses any ability to adjust resources as required. [Ref. 31]

- The PWC Norfolk contracting officer believes the consortium strategy will be the most effective strategy for a contracting regionalization effort. [Ref. 32].
- We must consider the fact that, realistically, systems commands will still exist after regionalization. We must consider the local issues of the region, be sensitive to contracting responsibilities of the commands in the region, and be aware of the impact of regionalization from a human resources perspective. [Ref. 33]

#### **D. SUMMARY OF TENT CONFERENCE COMMENTS**

On 12 May 1999, a "tent" conference on acquisition reform was held in San Diego, California. Representatives from local contracting activities, as well as representatives from major industry firms such as WANG, and SCIA attended the second annual tent conference. This conference brings industry and Government together to stimulate discussion on acquisition reform. Keynote speakers included Rear Admiral Jenkins, Deputy Assistant for Business Management to the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RDA));

Mr. Elliot Branch, Executive Director, (ASN (RDA)); and corporate executives from WANG and SAIC.

Comments and concerns raised at this conference mirrored those stated earlier by other contracting officers. The conference began with opening comments by Sarah Lamade, Chief of Information for SPAWAR. She commented that we are gathered in this acquisition reform forum to pursue "cheaper, faster, and better" acquisition methods. In turn, realized savings from process improvements and infrastructure reductions will help fund future warfighter improvements. [Ref. 34]

Peter Chase of the Office for the Assistant to the Secretary of the Navy (Research, Development, and Acquisition), Acquisition Business Manager, was the first of many speakers and he commented on four areas: technology, the purchase cards, price based acquisition, and purchasing commercial items. Specific comments are paraphrased below: [Ref. 35]

- Technology helps business meet customer requirements. It is a reform enabler, and we need to take advantage of the INTERNET's potential.
- Acquisition reform helps us procure technology better and quicker, with contract vehicles such as the Electronic Mall, Government purchase cards, Blanket Purchase Agreements, and Indefinite Delivery/Indefinite Quantity contracts.
- The purchase card accounts for over \$7 billion dollars in transactions, helping to save payment transaction costs.
- Purchase card use has been expanded for use in training, medical payments, and inter-Government transactions.
- The issue now for the purchase card is the 2 percent transaction fee. Who is going to pay for this fee?



- New management paradigm - Empowerment. We need to delegate to lowest level possible in acquisition reform.
- Price based acquisition: Helps get more contractors to do business with the Government. It also reduces cost and pricing data oversight. It also allows contractors to work in a way that is not hindered by Government rules/regulations.
- Purchasing commercial items: We are relieved of Government unique practices in purchasing commercial items and we will be including construction in our commercial item description. We also need to use Time and Materials contracts more as this is a common commercial practice.

Mr. Elliot Branch, Executive Director, Acquisition Business Manager, ASN (RDA), was the next speaker. He commented on why we were meeting in the tent conference, issues of the past, regionalization, Speed/Connectivity/Intangibles, and impediments to acquisition reform. Specific comments are paraphrased below: [Ref. 36]

- We are meeting here today to talk about your issues, unintended consequences and the myth that Government is so different from the commercial market.
- Government does have competition...the Air Force is our internal competitor, while the Department of Energy is an external competitor.
- Our number one stakeholder is the warfighter. We have to acquire quality at costs he wants to pay and in a non-evasive manner.
- We are implementing regionalization and we have reduced the number of Shore Intermediate Maintenance Activities (SIMAs) down to one in the San Diego area.
- Organization is at the edge of chaos. We need flexibility to solve acquisition reform issues. One quote that appropriately captures change is "the only person that likes change is a wet baby."
- Economy is driven by: Speed, Connectivity, and intangibles.
- Speed – the purchase card allows us to get to the product quicker. In FY 1995, there were two million traditional contract transactions. The

increased use of the purchase card has helped to reduce the number of traditional transactions by 75% over the last few years.

- Speed - By using market research that was based upon new initiatives, an Air Force contracting activity was able to reduce their source selection of 77 offerors down to three.
- Connectivity - SPEDI (Small Purchase Electronic Data Interchange) allows us to quickly make payments, process receipt transactions, etc in a connected environment.
- Speed/Connectivity - The Navy Electronic Commerce Online (NECO) is another arrow in our quiver of acquisition tools to allow us to be interconnected and process contracting transactions quickly.
- Connectivity/Acquisition related businesses – We are working towards an end-to-end procurement system. Connectivity end-to-end is required and the purchase card is the tool. The new purchase cards will allow for electronic requirements, electronic purchase logs, and electronic statements all on one card and this will help to prevent offloading our contracting workload to the end user.
- Connectivity - A single portal to NECO online for all user requirements to be submitted via online or electronic data interchange will enable us to be connected, and gain speed in our contracting transactions.
- Connectivity - Standard Procurement System (SPS), Universal Interface, is another tool for contracts/procurement. This is a significantly improved tool, with a new architecture that is web based.
- Connectivity - The future of online connectivity is to have drawings, data, and cost information readily available in an integrated digital environment.
- Vision – We must strive towards a network centric and platform independent contracting system.
- Intangibles – we must place emphasis upon the intangibles in any contracting decision such as past performance, best value, price based acquisition, and value analysis.
- Impediments – The three impediments to further acquisition reform are Tribes/Rituals/Rites of Passage (TRRP), Command & Control, and Denial of Reality.
- Tribes, Rituals, Rites of Passage: We are all in one tribe today with our badges. The acquisition reform message gets garbled as it filters through the TRRP issues. We need to be able to communicate after tabling our assumptions so we can make needed acquisition reform changes.

- Command and Control: We must strive for a network versus platform centric organization. We are not a network centric organization. That is why we struggle with regionalization and consortiums. The saying is true, "what I don't command, I can't control."
- Denial of Reality: This comes down to change management. We live in denial of the reality of the situation. We must change how we live in our models and learn how to overcome impediments.
- Closing comments: We need to think through metrics and get senior leadership to establish meaningful metrics. How are we measuring performance? We clearly are not. Accounting systems tell us how much we spent, not how much it cost. We decide to do this by benchmarking with industry. How do we reduce the negative wedge in the Program Objectives Memorandum (POM)? We will save money and it will be successful in the out years.

Mr. Bob Brower, Contracting Officer, Naval Facilities Engineering Command, Engineering Field Division, Southwest, was the next speaker. He commented on the SPS system, regionalization, and issues. Specific comments are listed below: [Ref. 37]

- SPS – This is another obstacle to accommodate/implement acquisition reform.
- Regional procurement team – We finally came together as a team. Initially, the drive was to one HCA, and we struggled with that issue. The main obstacle was fear of losing jobs. We complicate this by downsizing the procurement function until it is not effective. Complicating this was the lack of information sharing. When asked how many work for you, the answer was "one to one thousand." There was not a sense of trust or sharing of information. The change in regionalization/centralization was a new direction...consortiums. Now, instead of eliminating each other for fear of the other taking over our function, the regional procurement team now works together for the common good.
- We in the contracting field are overhead and we need to lower it. At the same time, we need to be able to reduce program costs and that is where the real savings can be had.

- We need to look at industry and do what they are doing in the commercial sector and implement it.
- The purchase card and the transaction fee. MasterCard charges \$75 plus 3/4 of 1% for transactions. Some small businesses may not accept the card and require cash or check due to this problem. We need to find a way to solve this issue and get the small business on the purchase card bandwagon.

Mr. Richard Shearer, head of contracts for SAIC, a major research industry representative, commented on different issues ranging from management of change to performance measurements. Specific comments are paraphrased below:

[Ref. 38]

- The issue of change in industry and Government is the same story. It is the management of change. We are just like that old saying...Same monkey, different tree. The problem with industry is what is the incentive for industry to change?
- Regionalization - The common reason for regionalization and consolidation is to "better serve you." The problem is that in the end, you end up offloading work to the end user. The same can be said for the trend to "automate, use IT, and drop workload on the end user." When you regionalize contracts, you tend to promote your good people out to the private sector.
- Finally, remember, you get what you measure...be careful of what you measure.

Mr. Bob Martin, Vice President, WANG Government Systems, a major industry representative, commented on different issues ranging from the impact of consortium to regionalization. Specific comments are paraphrased below: [Ref.

39]

- Impact of consortium/consolidation – There is not so much of an impact upon industry. There may be some reduced transaction costs but we

found that there is more stable funding for industry through consortiums. Business goes where the money is located.

- Regionalization/consortium – We found that with regionalization, the customer may become vendor-dependent. You need to have a diversity of vendors and reduce lock up situations of vendor-dependency.

Mr. Richard Esaias, a branch head for SPAWAR Systems Center, San Diego (SSC), commented on different issues ranging from relooking at regulations to regionalization. Specific comments are paraphrased below: [Ref. 40]

- We need to revisit acquisition regulations and read from the perspective of what you can do, not what you cannot do.
- We must procure faster, cheaper, and better.
- Regionalization - no one was buying in on the concept. The issue was efficiency and leverage. We are looking at major installation contracts for command, control, and communications issues for a regional based contract. We expect to have a regional contract awarded by the September 1999 timeframe.

The floor was opened for general comments and the following comments were made during the tent conference: [Ref. 41]

- There is a negative view of the regionalization concept.
- Regional contracts – Industry needs to know what quantities can be expected for the regional contracts to help them gauge the true requirements that may actualize into contracts. Janitorial ashore/afloat contracts are an example of such a possibility. We cannot quantify how many will utilize the contract but it will help with the workload offload from the ship.
- Small business - We need to have the Small Business Administration attend meetings to make the regionalization/consortium process work.
- The issue of one HCA authority exists. The primary concerns cited with a single HCA are the issue of command culture, and how we cannot effectively procure in a regional environment if we are still bound by the different contracting business rules in place for the many contracting activities.

Rear Admiral G. H. Jenkins, Deputy for Acquisition and Business Management, Assistant Secretary of the Navy (Research, Development, and Analysis) was the final speaker. Specific comments are paraphrased below: [Ref. 42]

- We are not tearing down processes until dramatic improvement of customer service can be achieved. Our contracting customers should be so happy with the product we provide that they knock your door down for more.
- Business approach – We are working towards a business transformation through emerging technology such as closed loop electronic commerce and electronic data interchange.
- For every large contract, we must find some way to ensure we cultivate small business as a partner in the large contract. In addition, we need to get more small businesses to participate in the credit card program.
- Business practices to pursue:
  - Virtual marketplace. - Internet shopping/electronic catalogs.
  - Customer Value contracts - corporate contracts that add value to the customer, such as best value contracts that are not just based upon the price.
  - Electronic commerce - Electronic data interchange purchasing.
  - Long Term contracts - 2 to 3 years in duration.
  - Best value buying.
  - Direct Vendor Delivery.
  - We need to "Gravitate towards best practice".
- Emall – a value added broker. There were not great returns during the first five years but now a deployed amphibious ready group ordered all their clothing requirements for deployment through the web. Now we have added reutilization items on the EMALL. Over \$286 million in requirements flow through Emall, with 2.6 million line items, and 350,000 commercial off the shelf items.
- Stockmarket method - multiple awards to multiple people as long as the price is fair and reasonable. You price based upon the given discount. You allow the contractor to change his price accordingly. The

contractor sets up the marketplace and ordering process. Our customer is the defacto buyer.

- The purchase card is the number one corporate tool for reengineering.
- Consolidation of fleet regional contracting offices. The number of contracting offices decreased from 209 in 1997 to 76 this year. NAVFAC/NAVSEA/NAVSUP are reducing the number of contracting activities and activities with procurement authority.
- There is a belief that a contracting officer only performs those duties normally associated with a contracting official. We are not only contracting officers but also subject matter experts who use the Federal Acquisition Regulation as our enabler. We need to make a shift in this paradigm for the future of contracting.
- Consolidation - We have to get away from consolidation. It has diminishing returns and what we need is process reengineering. We haven't hired over ten years and this is mortgaging our future. Nearly 2/3<sup>rd</sup> of our contracting personnel are now retirement eligible. We need to reinvent/reengineer the contracting process to take less people to do contracting but this will take at least three to five years of new hirings, retraining, and reengineering of the contracting process.
- We need to get out of the business of writing contracts for contracts that we already have in place. This is a future goal.
- The GS-1106 buyers are gone. The GS-1105 buyers are nearly gone. Now, GS-1102 contract specialists have only dropped 10%. We need to have subject matter experts that support the process and we need to be able to use these GS-1102s in a new role, as well as being contracting officers.
- Consortiums are only another acquisition tool that we are exploring in the acquisition reform spectrum and we should not oversell consortiums as the panacea or end all solution.

## **E. CHAPTER SUMMARY**

This chapter presented the comments and concerns cited by contracting officers in the San Diego and other Navy Regions regarding the issue of regionalization, and specifically, the effect of consolidation upon their contracting activities. The issues cited by the numerous interviews and survey respondents

ranged from concern over how the regional contracting office would impact the current level of contracting services provided to the level of resources required for the new regional contracting office.

Each activity cited their concerns, and discussed common factors that must be considered in any regionalization effort. The next chapter will analyze the comments cited above to determine the critical factors that must be considered in the pursuit of an effective regionalization of the procurement activity.



## **IV. ANALYSIS**

### **A. INTRODUCTION**

The previous chapters discussed several issues: introduction to the regionalization concept; introduction to the issue of consolidation of contracting activities; presentation of the NCOAST study results; regionalization in the Navy Region Southwest; summaries of interviews and survey responses; and comments made by various contracting officers and industry representatives from the 12 May 1999 Acquisition Reform "Tent" Conference held in San Diego, California.

This chapter analyzes the information presented in the previous chapters. The objective is to find common consolidation themes and discern factors which should be considered in the consolidation of contracting activities.

### **B. COMMON THEMES OF CENTRALIZED CONTRACTING ACTIVITIES**

#### **1. Theme: Contracting is Core to Our Mission**

In search of common themes underlying the various comments made by the interviews, survey respondents, and various other sources, we find that contracting is considered a core part of an activity's mission.

This can be attributed to five specific issues within the "core to mission" theory: Uniqueness of the mission/product, technical nature of the work, level of

knowledge, Head of Contracting Activity (HCA) authority, and funding of the command.

*a. Uniqueness of command mission/product.*

Various commands responded that contracting is a core part of their command's ability to meet its mission. Space and Naval Warfare Systems Command (SPAWAR) cited that this is a key consideration due to the uniqueness of performing Navy C4I requirements. Naval Facilities Engineering Command, Southwest Division (NAVFAC) cited the need for their activity to perform contracting for construction requirements, as well as Naval Medical Center (NMC), San Diego for patient care requirements.

The Fleet and Industrial Supply Center, San Diego (FISC SD) viewed this uniqueness as a fear of change. By looking at contracting as core to their mission, the fear is that by consolidating their contracting activity functions, you are interfering with the mission of the activity. The hardest part is getting participation across claimancy lines.

Superintendent of Shipbuilding, Conversion, and Repair (SUPSHIP) San Diego stated that the procurement/contract administration function is a vital part of an organization's mission and this also is the case with SUPSHIP. The primary mission of SUPSHIP is to procure and administer ship repair contracts.

To have a regional office do this will take away from the responsiveness of their activity, which is difficult for an offsite activity to do.

Naval Aviation Depot (NADEP), San Diego stated that consolidation of contractual authority is not conducive to their production line operations. As production lines are measured on strict metrics, their experience has shown that the metrics of regional or centralized functions does not necessarily correlate with those of their organization. This may cause a suboptimization of their production line requirements.

Finally, Mr. Elliot Branch, Executive Director, Acquisition Business Manager, for the Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RDA)) stated during the May 12<sup>th</sup> Tent Conference that the "Tribes and Rituals" mentality prevents us from being able to communicate during issues such as regionalization. As we are separate tribes, we go through our rituals or routines that prevent us from tabling our assumptions so we can make changes in pursuit of acquisition reform.

***b. Technical nature of work.***

Several of the comments made by the contracting activities cited the technical nature of the work as core to their mission. NAVFAC stated that the technical nature of the engineering work required their contracting officers to be very knowledgeable of the complex issues surrounding construction, especially

understanding the nuances of how activities located in different areas have different construction specifications. SPAWAR stated that you do not want to regionalize major systems commands as they have the right expertise and interfaces with the program offices, and this reflects upon the core nature of their business.

*c. Level of knowledge.*

Many respondents stated that their contracting functions required a level of knowledge that was only available at their activity. SPAWAR, NMC, and NAVFAC commented on the fact that the unique knowledge requirements of the contracting officers at their location necessitated their performing the contracts at their location. Who better to know the requirements of the customer than those who work there? In addition, SPAWAR cited the “right expertise” and interfaces with program offices resides at the major system command. In addition, just as they would not expect someone else doing their contracting, the same would apply for SPAWAR procuring construction services for NAVFAC.

This is disputed by FISC SD, who viewed that the Davis-Bacon and Service Contract acts can be swapped around and GS-1102 series personnel are more than capable of meeting the challenge of different tasks. Some activities agreed that common supplies and services could be procured by a regional activity. However, many respondents noted that specialization is highly desirable when

procuring more complex products and services. A contract specialist who procures common supplies and/or services may not have the proper experience or required specialized knowledge to satisfy highly technical or industry specific requirements. Whereas, a contract "specialist" who has significant experience with the product requirements and extensive knowledge of the industry may be able to provide the customer with better service and value.

*d. HCA Authority.*

The issue of Head of Contracting Activity (HCA) authority is a valid issue affecting contracting consolidation. NAVFAC, FISC SD, and SPAWAR obtain their contracting authority from different systems command headquarters. The combination of HCA authority or condensation to one HCA authority is a hard issue to tackle. SPAWAR commented that you have tenant activities in a region that report to their systems command headquarters and they have to justify why they are there. By pulling HCA authority from the systems commands and transferring the authority to the regional commander, the level of control and reason for the activities being in the area are diminished. NAVFAC commented that the single HCA issue will have to be a slowly evolving process. You cannot just place everyone into one building and ask them to do everything.

*e. Funding.*

Funding is another issue that was commonly cited as affecting consolidation. Funding levels differ from command to command. SPAWAR, NAVFAC, and PWC stated they are funded by working capital funds, reimbursable, and mission funding. If you regionalize the contracting function, how do you determine funding for the regional activity overhead and maintain their staff levels? Will this come through charging a surcharge for services rendered for each contract processed or do you assess a fee to each activity per annum for services rendered on a reimbursable basis? As the various commands are funded uniquely, with different appropriations, this issue must be considered in any consolidation effort.

## **2. Theme: Change is Hard to Overcome**

A comment was made during the May 12<sup>th</sup> Tent Conference in San Diego, California that "the only person that loves change is a baby with a wet diaper." The respondents all agreed that fear of change as a result of consolidation is especially hard to overcome. It involves the perception of diminished service, loss of job security, and loss of control.

### ***a. Fear of change.***

Various commands stated fear of change as a common theme. FISC SD cited concern that they would lose control over their own destiny and would not have their own buyer. SPAWAR commented that regionalization is seen as a

threat and unless you incentivize the workers to buy into regionalization, they will fear change. Naval Medical Center (NMC), San Diego concurred that regionalization is seen as a threat, especially the fear of change in the working environment.

*b. Perception of diminished service/interface.*

The fear of change is an emotional issue. FISC SD encountered this when attempting to partner with a Naval Air Station (NAS) who was reluctant to turn over contracting functions through partnering due to the emotional issue of losing control over their own destiny. FISC SD also stated that they are seen as the devil's incarnate. This comment may be closer to the truth than they realize as other commands viewed FISC SD as promoting the idea of partnering at the expense of the local activity. SPAWAR commented that this was echoed by another major customer who felt that they would not be able to influence the process or set priorities. Numerous respondents stated that they would rather have their own contracting office. They believed that if they relied upon another activity for contracting support, they would not received the same level of support.

NMC concurred with the sentiment expressed by SPAWAR and believed regionalization would have a negative impact upon their activity. They believe that the current contract award period takes too long, up to six months for

large patient care contracts. They are concerned that PALT may increase if all requirements are funneled through the FISC.

*c. Perception of loss of job security.*

Many of the interviewees and survey respondents commented on the loss of job security as a major issue. FISC workload began to decrease because of the purchase card and this caused worries as you need to size buyers to available work. Physical consolidation was presented at FISC as doing things smarter, quicker, and cheaper but the FISC contracting personnel still viewed it as a threat to their jobs. When SPAWAR moved to the West Coast, they found that to reduce the workforce, you had to address the issue of job security. They overcame this through a leadership commitment not to have a reduction of workforce.

NMC concurred with the above comments. They felt that with the excess number of GS-1102 series contracting specialists in the region, a major issue was the potential for a mandated reduction in workforce.

Finally, NAVFAC contracting officer, Mr. Bob Brower, stated during the Tent Conference that the obstacle for the San Diego Regional Procurement Team was fear of change. The perception was that regionalization would jeopardize contracting jobs and we would downsize the procurement function until it doesn't work anymore.



*d. Loss of control.*

The perception that consolidation of contracting activities will result in the loss of control over one's destiny is a common theme. An analysis conducted by FISC SD concluded that a Naval Air Station's contracting function and five contracting specialists could be eliminated entirely by transferring the function to FISC SD. Instead of having on-site contracting support, the Naval Air Station would have to submit its requirements electronically to the FISC. This recommendation was never implemented because the Naval Air Station feared loss of control over the contracting function would impact its mission. In fact, numerous respondents expressed similar concerns about consolidation. These commands believed that "they can't control what they don't command."

**3. Theme: Reduced Resources Driving the Process.**

Reductions in personnel, budget, and customer base pose a real concern that must be addressed as they contribute to the need to review how we will structure a regional contracting office.

As discussed previously, the increased use of impact cards has lead to significant reductions in small purchase workloads at many contracting activities. If not careful, a contracting activity may experience a sharp increase in overhead rates if they do not take corresponding actions to reduce infrastructure and personnel costs. In essence, acquisition tools and enablers may require any activity

to continually resize its organization and resources to available work. If they fail to do this, the resulting increase in overhead rates could force potential customers to look elsewhere for those requirements. The resulting exodus of customers further exacerbates an already alarming overhead rate trend, and could potentially result in an unrecoverable “death spiral” for that organization. If not corrected, the activity could be “forced” to pass its higher overhead costs onto captive customers.

Reduced resources may also drive the need for improved methods of procurements to satisfy requirements, as the purchase card implementation shifts the procurement workload to the customer.

*a. Personnel/workload reduction.*

As stated by the FISC SD Contracting Officer, the contracting office workload reduction at FISC SD was due primarily to the increased use of the purchase card. This drove the need at FISC SD to size their contracting staff to the available workload. This was accomplished through attrition, transfers to other departments, voluntary early retirement action (VERA), and some reduction in force (RIF). NMC also stated that resultant workload reductions would adversely impact their effectiveness. Naval Construction Battalion Center (NCBC), Port Hueneme found themselves in the same situation due to the increased use of Prime Vendor contracts and purchase cards. As a result of the reduced workload they

were forced to reduce their contracting staff via a reduction in force (RIF) and develop a partnership with FISC SD.

*b. Budget reduction.*

Various commands stated that their consolidation efforts were driven by budget reductions. NMC stated that they were directed to find savings in their contracting function to offset a five percent reduction in their operating budget. This drove their current efforts to establish regional medical equipment service contracts, decrease buy decisions and make more lease decisions. NCBC Port Hueneme and NAS Point Mugu merged to reduce infrastructure costs in a shrinking budget environment and now have a merged supply department that is partnered with FISC San Diego for their contracting requirements.

FISC Puget Sound experienced similar budget cuts, forcing them to reduce their contracting staff from 102 to 82. With Simplified Acquisition Procurement workload expected to decrease, the pressure will be to further reduce costs and attendant overhead, and eliminate physical storefronts.

*c. Customer base shrinking.*

Many activities stated that the workload reduction fosters and motivates contracting activities to venture into partnership agreements with larger activities such as a FISC. On the other hand, FISC SD also attributes the workload reduction to the increased use of the purchase card, both in large and small

purchasing. As a result of this trend, contracting activities are being forced to reduce staff to match expected workload.

#### **4. Theme: Impact of Technology and Acquisition Tools**

The use of new technology tools such as automated acquisition systems such as the Standard Procurement System (SPS), and increased use of the procurement card were cited by many commands as contributing to the problems of reduced workload, and subsequent increase in acquisition personnel overhead costs. Additionally, the increased use of acquisition tools, such as Prime Vendor, Direct Vendor Deliveries, Long Term contracts and bundling of requirements has impacted small business and other socio-economic contracting goals.

##### ***a. Purchase Card - reduced workload.***

FISC SD attributes the workload reduction to the increased use of the purchase card, both in large and small purchasing. This coupled with the need to reduce the size of the workforce to the work helped to shift the workload to other areas. FISC SD also helped NADEP reduce their workload using the purchase cards. However, the purchase card is still in the Supply Department's possession, not the end user.

NCBC Port Hueneme attributed the increased use of the Purchase Card and Prime Vendor/Direct Vendor Delivery contracts as having the single most impact upon the reduction in the workload of their contracting office.

During the Tent Conference, Mr. Elliot Branch stated that the purchase card gives us speed. It allows us to get the product quicker, and since FY95, the number of traditional contracting transactions has been reduced by 75% to less than 50,000 last year. Rear Admiral (RADM) Jenkins, ASN (RDA), concurred, stating that the purchase card is the number one corporate tool for reengineering our contracting process.

***b. Prime Vendor/Direct Vendor Delivery.***

The majority of the commands are currently using or have used Prime Vendor or Direct Vendor Delivery (DVD) contracts. Similar to the purchase card situation, NCBC Port Hueneme attributed the reduction in the contracting workload to the increased use of Prime Vendor and DVD contracts. As a result of this workload reduction, they decided to partner with FISC SD for contracting services.

***c. Bundling of contracts and socio-economic impact.***

Most of the commands voiced concern about using long term contracts, Prime Vendor, and consortium type contracting vehicles and their effect upon the small business and other socio-economic contracting goals. SPAWAR stated that industry has a strong voice with Congress, both economical and political, and the small business lobby has strong advocacy on Capitol Hill. Regionalization consolidates work, making small contracts into larger contracts,

making it difficult for smaller businesses to compete. This is cost efficient as we are bundling our requirements to gain economic order quantity efficiencies, however, this comes at the expense of socio-economic goals. NAVFAC cited similar concerns. NAVFAC stated that the use of Multiple Award Contracts (MAC) reduces procurement lead time administrative costs. However, NAVFAC also stated that MAC may be detrimental to the small business community.

NMC stated that due to the tightening of their budget, they had to consolidate their contracts into larger contracts. They foresaw the effect upon the smaller businesses and placed clauses to ensure a portion of the contract business was directed to small businesses.

The same comments were echoed by Tent Conference attendees. The impact upon small business needs to be considered when using various acquisition reform initiatives. In addition, Rear Admiral Jenkins stated that we need to get small businesses more involved in the purchase card program.

*d. Automated acquisition systems.*

Nearly every interviewee and survey respondent commented on the issue of technology. Specifically, they expressed concern with the Standard Procurement System (SPS) as an integrated procurement system. FISC SD commented that as we transition from legacy procurement systems to SPS and Procurement Desktop Defense (PD2), you have to overcome the learning curve.

NMC utilizes a system called Standard Automated Contracting System for Federal Agencies (SACON), which they find more useful than the current certified version of SPS. According to NMC, SACON allows more flexibility in writing adhoc reports. Other commands voiced similar concerns with SPS's reliability, lack of features, and the limited number of licenses available for smaller activities. SPAWAR cited that information exchange and system compatibility are key factors as some activities use SPS and PD2, while other activities use legacy systems such as SACON.

Another technology issue related to SPS is the use of facsimile and electronic mail to receive procurement documents. FISC utilizes the medium of facsimiles and email to receive requirements from customers. This was viewed by some of the commands, such as NMC, as inefficient in light of SPS and the advent of PD2. In addition, NMC stated that using email and the telephone does not substitute for having a contracting representative on site.

During the May 12 Tent Conference, Mr. Elliot Branch stated that connectivity is a key component to achieving acquisition reform. Through the use of such automated acquisition tools as Small Purchase Electronic Data Interchange (SPEDI), Navy Electronic Commerce Online (NECO), SPS, and end-to-end procurement systems, we will be able to procure our requirements better, cheaper, and faster. RADM Jenkins concurred, stating that the Department of Defense

Electronic Mall (DOD EMALL) did not garner much use during its first five years but now over \$286 million worth of requirements were satisfied through the DOD EMALL.

## **5. Theme: Stakeholder Management Required**

Many activities cited concerns about maintaining communications with all stakeholders during regionalization, transmission of an outlying activity's requirements to the regional contracting office and possible service degradation. In summary, these respondents stated that we need to address and manage stakeholder concerns in any regionalization/consolidation effort.

### ***a. Communication.***

SPAWAR stated that we have to get the word out and communicate the idea of regionalization to the leadership, and get their buy-in. They also stated that the same process needs to occur with industry, customers, and all stakeholders that will be affected by consolidation of contracting activities.

This same concern about communication was echoed by NCBC Port Hueneme. During their effort to reduce their contracting infrastructure through partnership with FISC SD, they developed a good working relationship with the program office in San Diego. This trust-based relationship helped these activities overcome "regionalization" issues.



PWC Norfolk stated the need for continued communications with the customer as the most effective way to measure contract performance. While, PWC San Diego stated that improved communications systems are crucial to ensure the right product is procured.

*b. Stakeholder buy in (leadership/customer).*

A common thread is the need for stakeholder and leadership buy-in. SPAWAR stated that their headquarters commander made it his personal mission to become involved in acquisition reform. By asking for continual updates and asking the hard questions to help drive the process, he indicated not only his interest but commitment to acquisition reform. The same comments were echoed by NCBC Port Hueneme. Without senior leadership support, such as from Mr. Al Chase, Assistant Supply Officer, who was on the forefront of the issue of partnering with FISC SD, the commitment of the contracting office may not have been there when needed. NAVFAC also voiced the same concern that leadership buy-in is required for effective consolidation.

Another stakeholder issue surrounds contracting personnel. NCBC Port Hueneme stated that we need to ensure we communicate with the contracting personnel who will be affected by the consolidation process and to get their support or buy-in of the process.

FISC Jacksonville suggested starting a customer advocacy program that would allow the contracting activity to make calls on the customer, get their input on issues, and help to train them on contracting issues. This proactive step will help to keep a reality check on customer concerns.

Mr. Elliot Branch, ASN (RDA), commented during the May 12<sup>th</sup> Tent Conference with industry that our number one stakeholder is the warfighter. He stated that we need to acquire quality at the costs the warfighter is willing to pay and in a method that is non-evasive with his mission. Further more, he stated that we need to get senior officials to assume a leadership role by establishing warfighter support metrics. One way of doing this is by benchmarking with industry.

*c. Distance to regional office.*

Numerous respondents cited a concern about the distance from their activity to the regional contracting office. NCBC Port Hueneme stated that they experienced problems when they submitted requirements to their FISC partner. Often the distance between the activities may prevent personal interaction, discussion, and coordination. This lack of direct communication may not hamper the procurement of routine, well-defined requirements. However, the lack of direct and frequent face to face communication may impact the acquisition of ill-defined, complex or highly technical requirements. SPAWAR suggested a Navy

wide internet in the San Diego region may help alleviate communications issues associated with distance between customer and contracting activities.

FISC SD addressed the distance issue but viewed it from a different perspective. The issue could be negated by having customers use systems such as the Standard Procurement System (SPS) or Procurement Desktop Defense (PD2). However, in doing so, they would use up the limited number of site licenses earmarked for all regional customers. To remedy this situation, DoD should increase the number of site licenses to a level that satisfies anticipated customer demand.

*d. Work prioritization.*

A common concern cited by many commands was the issue of work prioritization. SPAWAR questioned workload allocation and prioritization processes when two or more major requirements of similar scope are received concurrently within the regional contracting office. Specifically, they are concerned that their requirement may be assigned to someone with less experience or that their requirement will not be given the priority attention it "deserves". Under these scenarios, SPAWAR's mission could be impacted.

*e. Process change - impact upon customer.*

Several activities including SPAWAR and NAVFAC cited impact upon the customer as a common concern. NAVFAC stated that you have to

consider the impact of regionalization upon the customer. The consolidation process should be customer driven and customer focused.

FISC Puget Sound (FISC PS) stated that a business case analysis should be completed to validate the soundness of centralization. By completing a business case analysis, you can determine what type of contracting activity is required, the level of services to provide, and the impact of centralization upon the customer. For example, FISC PS stated that a regional phone contract was implemented for the Puget Sound area. The customer expected a regional cellular phone contract would be as competitive and easy to implement as a commercial cellular phone contract. However, the administrative burden of using the regional contract detracted from any cost savings. Ultimately, the contract was not fully utilized due to the lack of customers. FISC PS stated that there are too many unfulfilled expectations with centralization.

NCBC Port Hueneme stated customer feedback on their partnering agreement with FISC San Diego has been generally positive. Certainly, the service level is probably the same when the customer interfaces are still the same. However, when there is a problem with the requirement in San Diego, the perception is that the process takes longer, and the customer has to interface with numerous contracting representatives on the same requirement.

Finally, during the 12 May Tent Conference, Mr. Richard Shearer, head of contracts for a major research firm, stated that regionalization should not shift or offload work to the customer. He stated that the unfortunate trend with such process changes as consolidation is that we automate, use information technology to solve problems, and end up shifting the workload onto the end user.

#### **6. Theme: Pressure to Reduce Costs**

Various commands cited the need to change the focus from outright consolidation to focusing upon the contracting process itself. Contracting efficiencies may be gained through changes in policy, process, or enabling technology. Also, competition was cited as one of the issues that requires a relook at how we do business.

##### ***a. Competition.***

Two activities had interesting comments on competition. NMC stated that they were acting like a business, in competition with other hospitals on the commercial sector. They felt hampered in this role as the rules for competition differ for the private hospitals compared to Federal Acquisition Regulations.

NCBC Port Hueneme commented on competition from a different perspective. They wondered why they are now in competition for business with other Government activities and why they need to justify their workload. They contend the service to be provided is either needed or it is not needed. This

viewpoint may have been prevalent during periods of high funding. However, it fails to take into account today's fiscal realities and pressures to reduce excess infrastructure. The Government and taxpayers cannot afford inefficient and/or redundant contracting activities. Therefore, the focus should be on who can provide the service quicker, faster, and cheaper.

*b. Focus on the process.*

FISC SD conducted numerous business case analyses (BCAs) to determine the feasibility of various consolidations and partnerships. The major incentive was to resize the workload to available work, reduce excess infrastructure and save recurring costs. As a result of these BCAs, FISC SD developed numerous partnerships and reduced the number of buyers on-site. NSA Monterey had a similar acquisition workload analysis conducted to determine the level of support required. This analysis resulted in a decrease in the number of buyers required to perform their mission from five to two.

FISC SD commented that a highly ranked acquisition official stated the key is to focus on process. For example, by looking at the requirements that customers have, they can be pooled and placed within leveraged buying consortiums. This was cited as helping to reduce the pressure on consolidation and provide customers with a more efficient process.

SPAWAR injected the issue of the customer's perception of value from the contracting process. Customers like the flexibility to go to different places to satisfy their requirements and they will shop around for the best value. However, adding value to the contracting process is easier said than done. For instance, DoD mandated conversion of existing systems to SPS without providing a detailed implementation plan or facilitating tools. As a result, SPS implementation has fallen short of previously "dictated" goals.

NCBC Port Hueneme concurred with the process orientation. They stated that when you regionalize or consolidate contracting functions, you should analyze the contracting process. A business case analysis is one of the tools to help you find your proposed regional organization.

PWC San Diego stated that the contracting process could be improved using value analysis. Buying activities should ensure the proper cost and technical tradeoffs are made to ensure customers receive the best value possible. To do this, they stated that contracting personnel must have good business analysis skills. Also, ongoing training is required to ensure contracting professionals possess current tools and skills. FISC Jacksonville concurred on the issue of evaluating processes, workload, and consolidation to add value to the contracting process.

Finally, Rear Admiral Jenkins stated that we need to pursue new processes and business practices such as the virtual marketplace and customer value contracts. Also, we need to increase our use of electronic commerce/DVD contracts, longer term contracts, and concentrate on best value buying. He also stated that we need to get away from consolidation. He stated consolidation has diminishing returns and what we truly need is Process Engineering. He stated that two thirds of our contracting personnel are retirement eligible and that we haven't hired anyone in over ten years in some places. Therefore, we need to begin to look at how to reinvent/reengineer the contracting process to operate with less people in the future.

#### **7. Theme: Commonality in Product/Function**

Various commands, including SPAWAR, FISC SD/PS, NAVFAC commented on the issue of product and contracting function commonality. NAVFAC stated that they were looking for commonality in functions and products with other contracting activities in the area to find areas where they can combine buying power for consortium buying. Common products and services include the base operating support (BOS) requirements for office supplies, administrative support, janitorial services, grounds maintenance, temporary services, information technology support and other products and services that one would expect to find in any command. The majority of the office related supplies are procured through



the use of the purchase cards. All other services are either contracted through the local contracting office or through FISC San Diego if it exceeds local procurement authority.

Survey respondents note the following common goods and services could be procured centrally: facility support services, ship repair, aircraft parts, tools, bearings, office supplies, administrative supplies, information and technology equipment. The common thread in the responses was the predominant use of Simplified Acquisition Procedures (SAP) and purchase cards. The SAP authority was commonly used by the activities to procure goods and services up to the \$100,000 threshold level. The purchase cards were commonly utilized to procure common office supplies, tools, and other goods under the micro-purchase threshold.

Rear Admiral Jenkins, ASN (RDA) challenged the San Diego regional procurement group to review common products or services that impact all customers. Twelve such service or product lines were to be reviewed for a consortium leverage buy including janitorial services, ship repair, gauge calibration, and information technology support.

#### **8. Theme: Commonality in Organization Structure**

The organizational structure of the commands interviewed are also similar. Most divide their procurement office by level of contracting thresholds. The

typical breakdown would be by SAP, and large purchasing. Some activities organize procurement by commodities, or teams such as NMC Balboa and NAVFAC EFD. This was to facilitate a single liaison for a commodity buy or to be located near the customer, sometimes in the next cubicle, as in the case of NAVFAC EFD's Area Focus Team (AFT).

The three FISCs in San Diego, Puget Sound, and Jacksonville organized around large contracts, SAPs, and Procurement Management Review (PMR) groups, with site locations dispersed. Other activities were structured either by mission (SUPSHIP), or under the regional systems command activity (NAVFAC) such as Public Works Center (PWC) and Resident-Officer-In-Charge-of-Contracts (ROICC).

### **C. CRITICAL FACTORS TO CONSIDER FOR CONSOLIDATION**

Review of the common themes listed in the previous section reveals critical factors that must be considered in any consolidation of contracting activities and/or authority.

Critical factors that can be discerned from the previous section include: core vs non-core mission support, change management, resources (funding, personnel, customer base workload), impact of technology, impact of acquisition tools (PV/DVD/LT contracts/Omnibus contracts/Bundling), logistics

infrastructure/separation from the regional office, stakeholder management, leadership involvement, process orientation, and product/function commonality.

The following critical factors were derived from the aforementioned section and include subfactors that must be considered in conjunction with the major factors.

**1. Factor: Core vs Non-Core**

The issue of core versus non-core mission support is a critical factor that needs to be considered in a consolidation of contracting activity. As mentioned, various commands viewed their activity's contracting function as a critical component supporting their activity's mission and viewed it as inseparable. The reasons cited ranged from the uniqueness of the command's product or mission, which no one else can perform, the technical nature of the work, level of knowledge required, inseparable HCA authority issue, to the issue of command funding source. All of these factors may affect the efficient consolidation of contracting activities and must be considered in any regionalization process.

Products and services procured by a regional concern must be reviewed to ensure that procurement by the regional activity will meet the stringent specification and delivery requirements of any unique product or service.

The technical nature of the product or service must be reviewed to ensure that the technical aspects of the contract can be adequately addressed by the regional concern.

The same issue applies to the level of knowledge that is required to procure the product. The argument that a widget can be procured by anyone may seem logical, however, more technical requirements that require in-depth knowledge of the construction process or systems integration must be considered as a critical factor to consider in a consolidation of contracting activity situation. Transfer of personnel from the technically oriented command to a central activity may make sense but other factors need to be considered, such as proximity to the customer, team versus commodity purchasing activity, and the complexity of the requirement.

The issue of HCA authority is a critical factor that must be considered in any consolidation of contracting activity. HCA authority is provided through the system commands to the area tenant activities. To regionalize without consideration of who has contracting authority may hamper consolidation initiatives. Furthermore, it may diminish the effectiveness and efficiency of subsequent organizations.

Finally, the issue of funding is a real issue that must be considered as a critical factor. As mentioned before, there are various appropriations that fund the

contracting activities. A regional concern will have to establish who will pay for the overhead of the regional contracting activity, determine the type of funding, and the funding source. Additionally, they will need to determine whether the regional activity will be funded by fee for service or through mission funding from the regional commander.

## **2. Factor: Change Management (Culture/Perceptions/control)**

As Rear Admiral Soderberg stated once, "the only person that loves change is a baby with a wet diaper." Similarly, the previous section found that change is an issue that must be considered as an overarching critical factor. Acquisition leaders must manage change and understand the effects it will have upon the customer, the contracting activity to be consolidated, and other stakeholders.

The first critical factor that must be considered is the culture. The working environment must be reviewed to ensure that change will not have a detrimental effect upon the working atmosphere of the contracting activity to be consolidated. Steps must be taken to ensure the process is fully communicated and that all stakeholders participate in a cooperative manner.

The next critical factor revolves around perceptions. The perception is that change comes from several factors. First, there is a perception that the level of service will decrease with regionalization. Second, there is a concern that personal, face to face interaction between buyer and customers will diminish.

Third, there is a perception that regionalization will cause job reductions. All of these perceptions can potentially undermine the effective consolidation of contracting activities and must be considered in any regionalization process.

The final perception held by many respondents is that they will lose control. Consolidation of contracting activities involves process change management. Consequently, the level of comfort with the old contracting process was high. Whereas, changing the process interjects uncertainty and angst. These perceptions must be addressed as a critical factor to consider in any regionalization effort.

### **3. Factor: Resources (Personnel/Budget/Customer Base)**

Resources are one of the most critical factors to be considered in a regionalization/consolidation effort. Resources include personnel, budget, and the customer base. Reduced workload due to increased use of purchase cards affects the size of the centralized contracting activity. Reductions in an activity's budget may drive the need for consolidation of contracting activities. Also, contracting activities may experience continued workload reductions as more customers use purchase cards, smart cards and end-to-end procurement systems.

Resources also play a critical factor in how the centralized contracting activity is manned, funded, and organized and must be considered as a critical factor for planning contracting activity consolidation.

#### **4. Factor: Impact of Technology**

The advent of the purchase card and newly automated acquisition systems play a critical factor in how to consolidate contracting activities. The purchase card has been a reengineering tool that has helped to reduce the number of contracting specialists while increasing the purchasing power of the customer.

Information technology systems, such as the Standard Procurement System and PD2, have the potential to provide more effective processing of contract requirements. This technology helps reduce the workload of contracting personnel and provides additional momentum to reduce the contracting staff. The implementation of such technology needs to be considered as a critical factor in any regional contracting consolidation. In addition, there exists numerous legacy information management systems at smaller commands that are currently incompatible with SPS/PD2. This integration issue must be resolved to facilitate additional infrastructure reductions and further enhancements to the contracting process.

#### **5. Factor: Impact of Acquisition Tools**

The impact of acquisition tools such as Prime Vendor, Direct Vendor Delivery, long term contracts, and OmniBus contracts must be considered as a critical factor to consider in the consolidation of contracting activities. These vehicles have been shown to reduce the workload of a contracting activity.

However, as more long-term contracts and large, OmniBus contracts are let, the impact upon the socio-economic nature of contracting and small businesses must be considered. The regional contracting activity must take into account how to balance the need to reduce infrastructure without sacrificing or adversely affecting the small business community.

**6. Factor: Logistics Infrastructure and Separation from the  
Regional Office**

The logistics infrastructure, including the distance separation from the regional office, and how requirements will flow to the regional contracting officer must be considered as a critical factor in any consolidation of contracting activity. The distance to the FISC played a critical issue in customer satisfaction. Use of electronic mail, overnight package shipments and facsimile transmissions were common methods of overcoming the distance separation issue. However, the level of customer satisfaction decreased over time. Customers became disgruntled over the lack of feedback on contract issues and having to deal with numerous contracts specialists for the same requirement. The type of logistics infrastructure that will be implemented to overcome the distance issue and customer feedback mechanism are vital considerations in any regional consolidation effort. Also, the acquisition leadership will need to address manning, funding and organizational structure issues.



## **7. Factor: Stakeholder Management/Buy-in**

Another critical factor that must be considered in any regionalization effort is the management of both internal and external stakeholders. The external stakeholders, ranging from small business advocates to the customer, are very vocal when it comes to regionalization/consolidation. Small businesses depend upon Government contracts for their livelihood and customers depend upon the contracting function to support their mission. Internal stakeholders such as contracting personnel and the activity's leadership team play a key role in the effective transition to a regional contracting activity. Any regionalization effort must ensure that the impact on stakeholders is assessed and that buy in from the stakeholders is sought. This "buy-in" helps reduce barriers to implementation of an effective and efficient regional contracting activity.

## **8. Factor: Process Orientation**

The intrinsic contracting processes must be considered when contemplating consolidation of contracting activities. The regionalization of any contracting activity will begin by examining the processes in place and altering those processes to add value. It may also require resizing the workforce to the available work.

Prioritization of the contract workload is crucial to ensuring the right product is procured at the right time. If a requirement is procured but the priority placed upon it does not match the urgency of the requirement, then the process

must be reviewed to ensure the right requirement is fulfilled at the right time. Failure to do so will affect the customer's confidence in the regionalized procurement process.

#### **9. Factor: Commonality - Products/Functions**

The final and probably one of the most critical factors that must be considered in any regionalization effort is the commonality of products procured, and functions performed by the existing contracting activities. A regional contracting activity can provide more value to customers when there is greater commonality in the products being procured. The more common the contracting functions performed, the greater likelihood that their contracting functions can be effectively consolidated and infrastructure costs reduced.

#### **D. SOUND BUSINESS PRACTICE**

One of the concerns with any consolidation of contracting activities is to ensure the process uses sound business practices. Respondents provided the following ideas regarding how to inject sound business practices: involve the stakeholder, communicate, measure how you perform, make sure the proposed consolidation is process driven, ensure the process adds value to the contracting process, and ensure processes are continually improved.

Involving the stakeholder in the consolidation process helps ensure various viewpoints, needs and concerns are addressed. The stakeholder not only includes

the customer, industry, and small business but also your internal environment consisting of your regional commander, and your contracting staff. By ensuring the involvement of each stakeholder as part of a team effort in the regionalization effort, the regional contracting activity will set a solid foundation for success.

Communicating the process to everyone on a regular basis ensures you are not only getting the word out but also getting feedback on how you are proceeding with the process. Communication also ensures that you can get the message of your consolidation vision, mission, and values to each stakeholder. This helps establish a solid foundation for the establishment of an effective and efficient consolidation effort.

Performance measurement is not only sound business practice but the law. The Government Performance and Results Act mandated the establishment of performance measures and requires every Government activity to make periodic reports on the achievement of those measurements. By measuring how we perform against well-defined and meaningful "yard sticks," we will be able to assess our strengths, weaknesses, and areas for further improvement. As commented before, you "get what gets measured."

Another sound business practice is to make sure the consolidation of contracting activities is process driven. As mentioned before, the consolidation of contracting activities is a process. In evaluating a consolidation effort, we are

looking at the contracting process spectrum to determine the best course of action. Performing a business case analysis or reviewing the contracting process will ensure sound business practice is injected into the proposed consolidation of contracting activities.

The consolidation of contracting activities must also add value to the contracting process. Best value procurement was cited as a business practice that must be followed. We are keepers of the taxpayer's trust and must ensure that each and every product and service we procure gives the Government the best value.

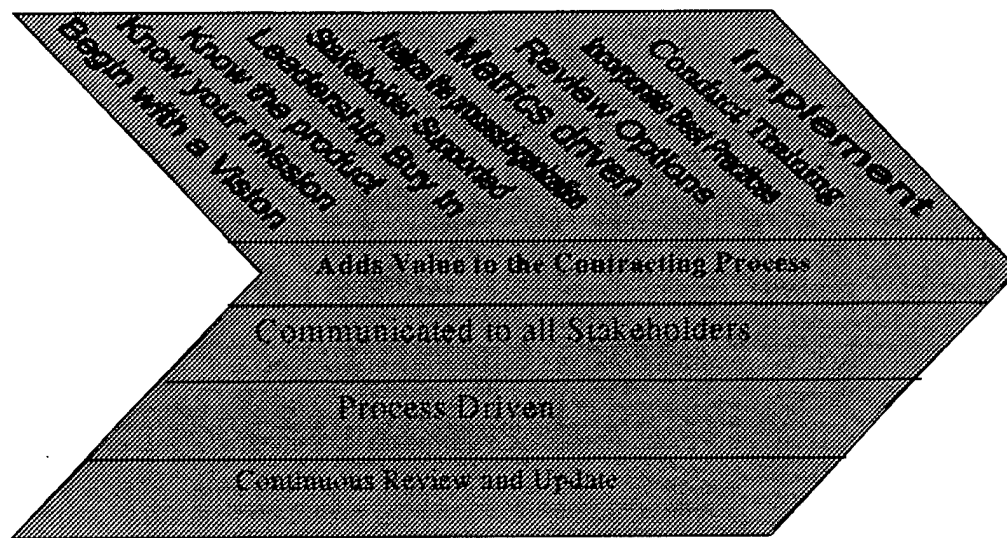
Finally, the consolidation of contracting activities must be continually reviewed and updated to ensure we are on the right track. This denotes an important idea: If we are consolidating past the point of efficiency, not adding value to the contracting process, we should stop. A continual reality check of how we are performing will ensure that we stay the course towards implementing an efficient and effective regional contracting activity,

## **E. STRATEGY ROADMAP**

As discussed previously, acquisition leaders need to ensure that any contracting function consolidation makes sound business sense and that it ultimately provides greater value to all stakeholders. However, implementation of such a strategy is extremely complex given the numerous stakeholders, issues and

processes involved. Given the myriad of factors that must be considered, it is probable that some factors and/or stakeholder concerns may be overlooked during the implementation process. Such an oversight could sub-optimize the entire acquisition process and could possibly impact a command's ability to meet its mission. To minimize the possibility of such oversight(s), acquisition leaders should consider using a "Strategy Roadmap" to facilitate implementation.

Figure 4.1 illustrates a "strategic roadmap" developed by the author to showcase the critical factors that must be considered, as well as the sound business practices to implement. The top portion of the strategic roadmap depicts all the critical factors that must be considered in any effort to consolidate contracting activities. The central portion indicates the need for the consolidation effort to add value to the contracting process. The second tier indicates the sound business practice of communicating to all stakeholders during the consolidation process. The third tier indicates the need for the consolidation effort to be business process driven. Finally, the underlying requirement in any consolidation effort is a continual review and update process.



**Figure 4.1 Proposed Strategic Roadmap**

**[Source: Summary of Chapter IV Critical Factor Analysis]**

## **F. CHAPTER SUMMARY**

Analysis of the various interviews, electronic surveys, and tent conference comments helped to derive the critical factors that must be considered to consolidate contracting functions and/or activities in a regionalization process. These critical factors provide a foundation on which to strategically plan and implement effective and efficient contracting function/activity consolidation using sound business practices. Acquisition leaders should consider using the “Strategy Roadmap” depicted in Figure 4.1 to facilitate implementation. This tool helps assess the risks and key issues that must be considered in any regionalization or consolidation of contracting function. Additionally, the roadmap helps ensure that

all stakeholder concerns are addressed and that sound business practices are injected into the acquisition process.





## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **A. INTRODUCTION**

This thesis examined the critical factors to consider in the consolidation of contracting activities in a regionalization effort. The researcher found that due to the vast array of stakeholders, the critical factors to consider are as varied as the background of the contracting activities but some critical factors were discernable. The major system commands viewed their functions as core to their mission and survival. The smaller commands were content to allow their contracting function to be consolidated, as long as it did not decrease the level of service received. To implement a single Head of Contracting Activity (HCA) within a region which fulfills the requirements of all regional customers can be achieved if the critical issues and factors discussed are addressed. In addition, there must be a region-wide support from the key stakeholders to ensure buy-in, and understanding of the new contracting processes.

The issue of a single HCA can make the consolidation of contracting activities a challenging task. Other alternatives to consolidation can be used to achieve savings in contracting activity infrastructure costs but they will take time to implement. Consortium or leveraged buying, web-based acquisition, and regional web storefronts are viable alternatives to physical consolidation of contracting offices and may achieve the cost savings in the long run if pursued as a

two prong approach. First, acquisition leaders should implement these new practices while looking at the contracting process for improvements in efficiencies. Second, they should reduce overhead staff through attrition and selective downsizing where the workload does not exist.

## **B. CONCLUSIONS**

Consolidation of contracting activities is a complicated requirement to implement due to the varied stakeholder issues that must be addressed. As determined through this thesis, consolidation of contracting activities is not an action one can undertake by stating "Just do it." Consolidation requires consideration of various stakeholder issues.

There are a wide variety of products and services procured in the various Navy regions, as well as a variety of contracting methods utilized to procure these items. The contracting activities currently in place are organized by teams, contracting thresholds, or by commodity. The purchase card and large, prime vendor-type contracts play a prevalent role in shaping the contracting organizations and their workload. Commonality exists but stakeholder issues present a barrier that must be overcome before any further consolidation of contracting activities occurs.

Most regions have begun to regionalize, including the major systems commands (SYSCOM), to reduce their infrastructure. In one example presented,

the number of contracting activities were reduced by 75 percent, however, only 24 percent of the savings could be attributed to personnel reductions. One would assume a correlation between the number of contracting activities reduced with the actual reduction in personnel supporting those activities. However, reduction in the personnel in one activity was attributed to attrition, voluntary early retirement, personnel transfers to other divisions, voluntary departure from federal service, and reduction in workforce actions. Further study on the impact of contracting activity consolidation upon the contracting workforce reduced may validate if a correlation exists.

### **1. Common Themes**

There were several themes and critical factors that were derived from this study. The themes ranged from contracting being core to the activity's mission to the impact of technology reducing the workload of a contracting office. The specific themes derived include:

- **Contracting is core to an activity's mission**

The unique nature of the contracting activity, in their funding source, where their contracting authority is derived, or the level of technical knowledge required for contracting actions drives the perception that contracting is core to a command's mission.

- **Change is hard to overcome**

Consolidation of contracting activities is viewed as a loss of control over the level of contracting service provided, lessened customer interface with known contracting specialists, and a change in one's job security. This perception of change incorporates psychological barriers that impede the successful consolidation of contracting activities.

- **Reduced resources driving the consolidation process**

Reductions in the number of personnel available to perform contracting functions, decreased activity budgets, and reduced customer requirements drive the need for activities to review how they perform their contracting function.

- **Impact of technology and acquisition tools**

The increased utilization of Government purchase cards, Prime Vendor/Direct Vendor Delivery contracts, and automation of contracting procurement systems has reduced the contracting workload of the contracting specialists. This drives more of the work to the customer, and reduces the number of contracting specialists required to perform simple contracting actions.

- **Stakeholder management required in the consolidation of contracting activities**

Consolidation of contracting activities requires addressal of how contracting requirements will be prioritized, what changes in contracting procedures are needed, and how we can better communicate with the customer. Stakeholder management is critical to ensure the regional contracting activity has the support and buy-in of the affected command leadership, and customers.

- **External and internal pressures to reduce contracting overhead costs**

Competition from different Government contracting activities for limited contracting workload, reduced activity budget levels, and the focus upon process efficiencies places pressure to reduce excess overhead.

- **Commonality in product/function**

Common products procured by contracting activities such as base operating support, and similar contracting functions provide a commonality that may be conducive to regionalization of contracting activities.

- **Commonality in organizational structure**

Similar contracting organization structures which are aligned by Simplified Acquisition Procedures (SAP) and large purchasing divisions are conducive to regionalization.

## **2. Critical Factors**

The critical factors that need to be considered in any consolidation of contracting activities are as varied as the predominant themes found during this thesis research. The critical factors ranged from whether the contracting function is core to the command's mission to impact of available resources. The specific critical factors derived from this research included:

- **Core versus non-core command function**

The activity's perception that the contracting function is critical in supporting the command's mission is a critical factor to consider. This may be due to the technical nature of the contracting requirements or the technical contracting knowledge required to perform the contracting function.

- **Change management**

Change management is required to ensure the impact to the customer is minimized. Contracting process changes occur as a result of consolidation of contracting activities and precipitate the need for active change management to ensure all stakeholders are actively involved in the process.

- **Impact of available resources**

Personnel reductions, shrinking budget levels, and consolidated customer requirements place pressure upon regions to reduce the number of contracting activities. The availability of resources to support a regional

contracting activity must be considered in any effort to consolidate contracting activities.

- **Impact of technology**

Increased use of the Government purchase card, and Internet-based procurement websites has reduced the number of requirements processed by contracting activities. The impact of the expanded use of such contracting vehicles is a critical factor that must be considered in any consolidation of contracting effort.

- **Impact of acquisition tools**

Increased use of the Prime Vendor, Direct Vendor Delivery, and long term OmniBus contracts reduces the workload of contracting activities. This places additional pressures for the consolidation of contracting activities and must be considered in any effort to consolidate contracting activities.

- **Impact of Logistics Infrastructure**

The distance separation from the regional office, and how requirements are transmitted to the regional office are of concern to customers. They are concerned that reliance upon off-site contracting support will reduce the support and service they receive. This perception, as well as logistics infrastructure/organizational issues, must be addressed in any consolidation of contracting activity effort.

- **Stakeholder management**

External stakeholders such as small businesses are affected by the consolidation of contracting activities. Internal stakeholders such as the contracting and command personnel raise concerns of reduced job security and a loss of control over the contracting process. These issues are critical considerations that requires stakeholder buy-in, and close management to ensure success of any consolidation effort.

- **Process orientation**

The intrinsic contracting process will require change to facilitate the consolidation of varied contracting business practices within a geographic region. Prioritization of contracting requirements is another key issue that requires the contracting process to be responsive to the customer's needs.

- **Commonality of products/functions.**

Commonality in the type of products procured within the region and contracting function similarity help to further determine the success of the consolidation of contracting functions in a region.

A consolidated regional contracting will have a greater chance for success if the listed critical factors and common themes are considered during planning and implementation. Also, the issue of a single HCA authority needs to be resolved.

We need to perform future contract functions faster, cheaper and smarter. Centralization of any contracting activity must address the above listed issues with



special attention placed upon alleviating stakeholder perceptions and concerns. The regional contracting office must be cost effective and utilize the contracting resources in a judicious manner to adequately meet all of the regional customers' requirements.

The decision to consolidate contracting activities should be based upon sound business practices, including the use of metrics, stakeholder involvement, continuous communication, and value to the customer. The consolidation plan must focus upon the customer, and be continuously reviewed and updated to ensure the plan makes sense for current and future customer bases.

Alternatives to consolidation of contracting activities should be reviewed if consolidation does not add value to the existing contracting processes or increases the contracting activity's overhead. One of these alternatives is the use of consortiums or leverage buying. Leverage buying allows for the regional contracting activity to use the leveraging power of consolidated requirements to obtain better value for customers.

In analyzing the motivation of both contracting officer and customers, it was discovered that we can implement consolidation but it has to be a team effort. Contracting officers must find new methods to streamline the common support issues and eliminate non-value-added contracting transactions. The customer must be willing to accept change and give the contracting officer the flexibility to improve the efficiencies of leverage buying, and reduce the contracting

infrastructure where it impacts efficiencies. Failure to do so may lead to more bureaucracy and less emphasis upon increased efficiency and effectiveness of the new regionalized contracting office.

## **C. RECOMMENDATIONS**

### **1. Further Study on Single HCA Issue**

Centralization of contracting activities would benefit from further research on the impact of consolidating all contracting activities under a single head of contracting activity (HCA). With many separate HCA reporting requirements in a typical region, further research will help to validate whether a single HCA concept is viable in the regionalization process.

### **2. Further Research on Consortium/Leveraged Buys**

The issue of consortium or leverage buys is an alternative that may help to ease the pressure from further consolidation of contracting activities. Further research on the impact of consortiums will help to validate the potential for expanding the regionalization process to include consortiums as a viable acquisition tool.

### **3. Regional Procurement Team Leaders Review and Implement Critical Factors in Future Strategic Planning**

The critical factors cited in this research should be addressed during the development and implementation of any consolidation effort. Review and

implementation of the critical factors will assist the Regional Procurement Team validate whether the current policy of contracting activity consolidation adds value to the regional contracting process.

**4. ASN (RDA) Develop Performance Metrics for Contracting**

The Government Performance and Review Act (GPRA) mandates that the Department of Defense establish measurable performance goals. As such, ASN (RDA) should develop performance metrics for regional contracting processes.

**5. Regional Procurement Leaders Explore New Technology to Integrate Regional Organization**

The advent of the Government purchase card helped to drive reductions in the contracting workload. The Department of Defense Electronic Mall (EMALL) allows for a one-stop shopping experience for the customer. A similar one-stop web-based "store front" should be implemented for the regional contracting office. The "store front" would incorporate commodity links to other contracting offices in lieu of further consolidation of contracting activities. In addition, further utilization of Electronic Commerce/Electronic Data Interchange (EC/EDI) technology should be implemented into a seamless end-to-end procurement process for the customer.

**6. Regional Procurement Leaders Review Current Policy of Contracting Office Consolidation**

The current policy of consolidating contracting activities should be reviewed to determine whether the consolidation process adds value to the region's contracting processes. Sound business practices noted in this thesis should be implemented to help establish an efficient and effective regional contracting office.

**D. SUMMARY AND REVIEW OF RESEARCH QUESTIONS**

Based upon the common themes derived from the surveys and interviews, the answers to the following primary and secondary thesis questions are summarized below:

- 1. Primary Question: What are the primary factors that affect the effective consolidation of contracting functions and/or authority in pursuit of a sound and cost effective regionalization effort?**

The primary factors that affect the effective consolidation of contracting functions include:

- Whether the contracting function is "core" to fulfilling the command's mission.
- Change management is required to resolve cultural/perceptual issues.
- The impact of available resources on the regional contracting organization.
- The impact of new technology on the contracting workload.

- The impact of new acquisition tools on the contracting workload.
  - The impact of the logistics infrastructure/customer separation from the regional contracting office.
  - Required stakeholder management to garner customer/command support.
  - The consolidation process must improve the regional contracting process and must be driven by business analysis.
  - Commonality of products/functions must exist to effectively consolidate activities.
2. **Secondary Question: How are the contracting functions aligned within your region and are they in direct support of your command's mission, or are they aligned by functional divisions of a command/unit?**

Contracting functions are aligned either by mission, contract threshold (large, small purchase, simplified acquisition procedures), team-based near the customer, or partnered with the regional Fleet and Industrial Supply Center.

3. **Secondary Question: What are the primary products/services procured within a typical naval region by your activity and what contracting methods and/or vehicles are used to procure your goods and services**

The primary products and services procured in a typical Navy region are varied and include a wide range of general supplies and services, technical and engineering support requirements, subsistence, base operating support services, construction materials, ship repair/construction, and facility support

services/construction. Contracting methods and vehicles employed in a typical Navy region include the use of simplified acquisition procedures, large contracts, Government purchase cards, and Prime Vendor/Direct Vendor Delivery long term contracts.

4. **Secondary Question: What products/services would benefit from the use of new contracting methods or vehicles, such as a national Omnibus contract, new Prime Vendor contracts, or expended purchase card limits that would help your activity become more efficient or reduce workload for your contracting staff?**

The production line environment would benefit from several new contracting methods. These methods include the implementation of a Prime Vendor contract awarded directly to the manufacturer; contracting with local production manufacturers that charge the customer at point of consumption; and enhanced Prime Vendor contracts.

In addition, the Government purchase card limits may be expanded for the use of facilities maintenance.

5. **Secondary Question: Is the scope of work performed by your command within a geographic region conducive to consolidation of contractual authority/function? What benefits or detriments would result from consolidating part or all of your contracting function?**

Some of the contracting functions performed by the various commands are conducive for consolidation of contracting authority/function. However, the various factors and barriers cited in previous chapters play a crucial role in the successful implementation of any contracting consolidation effort. Production-

type activities, contracting activities which are closely aligned to the customer, or those activities who view their contracting function as directly related to their command mission will contend that their contracting activity is not conducive to consolidation.

The common base operating support (BOS) requirements of many customers is conducive for consolidation. Contracting activities that share similar services or products are conducive for centralization, consolidation of contracting activities, or partnership with a FISC.

**6. Secondary Question: What decisions and resources may be required to effectively centralize contracting functions?**

The decisions that need to be made in order to effectively consolidate contracting functions are:

- What type of organization structure is desired for the centralized contracting organization?
- What contracting process will be utilized by the centralized activity?
- Where will HCA authority reside?
- Where will the regional contracting office be located?
- What level of physical centralization will be required?
- How will small business concerns be addressed?
- How will contracting requirements flow to the centralized activity from local and outlying areas?
- What common support requirements can be consolidated in the region?

Resources that will be required for an effective centralized contracting function includes manning, funding, facility allocation, and information technology resources.

**7. Secondary Question: To what extent will centralization of contracting activities affect the organizational structure of your current contracting activity? Your customer?**

The centralization of contracting activities will affect the organizational structure of many contracting activities. This is due to reduction in contracting workload, changes in the contracting process, vertical integration of contracting activities, changes in technology, and increased use of Prime Vendor contracts/purchase card.

The customer's organizational structure will also be affected due to similar changes in their local contracting process. Increased use of Government purchase cards, and Prime Vendor/Direct Vendor Delivery contracts will reduce the need for a contracting staff in the Supply Department. In addition, Government purchase card will shift the small purchase workload to the customer and require additional administrative work to be performed by the customer.

**8. Secondary Question: Are there any major issues or barriers to implementing the recommendations contained in the Navy Contracting Organization Alignment Study Team (NCOAST) study?**

The majority of respondents did not respond to this question as they were either not familiar with the study or had no comment. The major issue that prevailed for those who responded to this question was the issue of core versus



non-core mission and HCA authority. A perception exists that the contracting function is fundamental to supporting the command's mission. In addition, the issue of a single HCA to manage a regional contracting activity presents a barrier to consolidation that may deter the effectiveness of any consolidation of contracting activities.

**9. Secondary Question: What business practices or rules of contracting will be required to ensure the right product and services are procured by a regional/centralized contracting activity?**

The first business practice required is the need to conduct a business process review of the regional contracting process. One method of implementing a business process review is to conduct a business case analysis to review the current contracting organization and processes. A BCA will help to determine the most efficient and effective regional contracting processes/organization that complements and meets the region's contracting requirements.

The next business practice required is the need for constant communication with the stakeholder. Communication of process changes to the customer ensures stakeholder buy-in and feedback on any potential issues or concerns. In addition, centralization of contracting functions will require better methods of communicating with distant commands to prevent any miscommunication or contracting errors.

The final business practice required is a renewed focus upon best value contracting. A value analysis should be conducted of the regional contracting process to ensure the process adds value for the customer.

**10. Secondary Question: Understanding the critical factors involved in the centralization issue, what strategy could we employ in any generic regionalization effort?**

The implementation strategy should begin with drafting and planning a comprehensive contracting process that adds value. This plan should be communicated early and continuously in the centralization/regionalization process.

Second, the consolidation process should be based upon sound business practices and accurate projections of efficiencies and effectiveness.

Third, the implementation plan should consider the common themes and critical factors cited in this study. The contracting vehicles should match the commodities and services to be procured. The regional contracting organization, procedures and processes should take into account various stakeholder concerns and requirements.

Finally, the entire contracting process should be customer-focused, add value, and continuously measured to ensure requisite performance levels are achieved. The new GPRA requirement for performance measurement in Government activities makes it imperative that the new regional contracting activity's performance be measurable with valid and useful metrics from which the customer can assess the value of the contracting service provided.

## **E. AREAS FOR FURTHER RESEARCH**

### **1. Consortium/Leverage Buying**

Assess the feasibility, benefits and disadvantages of implementing consortium or leverage buying as an alternative to further consolidation of contracting activities.

### **2. Measuring Contract Activity Performance**

Develop and evaluate the metrics required for monitoring the performance of regional contracting processes.

### **3. Effects of Current Regionalization/Consolidation Efforts**

Determine the effects of current regionalization/consolidation efforts upon the customer, contracting organizations, and upon Procurement Action Lead Time (PALT). Compare the proposed savings documented in the region's business case analysis with actual cost savings incurred from infrastructure overhead reductions.

### **4. Future Role of the Contracting Officer**

Conduct a study to determine the future role of the contracting officer in an environment of reduced contracting actions, and increased use of purchase cards, long term contracts, and electronic commerce.



## LIST OF REFERENCES

1. Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition UNCLASSIFIED memorandum, Subject: Department of the Navy Contracting Organizational Study – Team Charter, 6 June 1997.
2. Office of the Deputy Chief of Naval Operations for Logistics UNCLASSIFIED memorandum, Subject: Regionalization, 6 January 1997.
3. Naval Supply Systems Command, "Flash from the Chief." Internet address: [[Http://dapper.fmso.navy.mil/business/flash/0299.html](http://dapper.fmso.navy.mil/business/flash/0299.html)]. February 1999.
4. Office of the Deputy Chief of Naval Operations for Logistics UNCLASSIFIED draft memorandum, Subject: Provisions of Basic Operating Support to Navy Activities, 25 March 1999.
5. Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition, Subject: Navy Contracting Organizational Alignment Study Team Final Report, 22 January 1998.
6. Burt, David N. and Dobler, Donald W., *Purchasing and Supply Management*, 9<sup>th</sup> ed., p. 45, New York: McGraw Hill, Inc., 1996.
7. Commercial Activities Working Group, Subject: Navy Infrastructure Reduction Business Plan, 17 December 1998.
8. Chief of Naval Operations Naval Message, Subject: NAVOP 004/97, Regionalization, 232110Z Oct 97.
9. Chief of Naval Operations Naval Message, Subject: NAVOP 15/97, Streamlining Shore Installation Management, 192215Z Oct 97.
10. Deputy Chief of Naval Operations for Logistics UNCLASSIFIED memorandum, Subject: Infrastructure Reduction Business Plan, 22 December 1998.

11. Naval Supply Systems Command, "NAVSUP Begins Supply System Reengineering Study." Internet address: [<http://www.navsup.navy.mil/business/sup21/archive/0298.htm>]. 22 January 1998.
12. Naval Supply Systems Command, "SUP 21 Reengineering Update." Internet address: [<http://www.navsup.navy.mil/business/sup21/newupdate.html>]. May 1999.
13. Naval Supply Systems Command, "NAVSUP Regional Supply Council Minutes." Internet address: [<http://dapper.fmso.navy.mil/business/rsc/nregsconn/0598minutes.html>]. May 1998.
14. Naval Supply Systems Command, "Status of Top 12 Current Issues, Jan 99." Internet address: [<http://dapper.fmso.navy.mil/business/flash/0299.html>]. February 1999.
15. Naval Supply Systems Command, "Status of Top 12 Current Issues, May 98," Internet address: [<http://dapper.fmso.navy.mil/flash/0598.html>]. May 1998.
16. Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition (Acquisition Business Manager), Draft presentation, Subject: Navy Contracting Consolidation. May 1999.
17. Naval Supply Systems Command, "Fleet Supply Policy Council Executive Session Minutes," Internet address: [<http://dapper.fmso.navy.mil/business/fleetsupport/fspc/0598minutes.html>]. May 1998.
18. Office of the Secretary of the Navy for Research, Development, and Acquisition UNCLASSIFIED memorandum, Subject: Department of the Navy Contracting Organizational Alignment Study, 11 June 1997.
19. Commander, Naval Base San Diego, "Commander, Navy Region Southwest," Internet address: [<http://www.cnbsd.navy.mil/regional/main.htm>]. May 1999.
20. Office of the Deputy Chief of Naval Operations for Logistics UNCLASSIFIED memorandum, Subject: Installation Management Regionalization For San Diego, 10 October 1996.

21. Qua, Commander John, Fleet and Industrial Supply Center (FISC), San Diego, California, Contracting Officer, Interview granted, 9 March 1999.
22. Cohen, Captain Jay, Space and Naval Warfare Command, San Diego, California, Interview granted, 9 March 1999.
23. Wilkins, Dennis, Naval Facilities Engineering Command, Southwest Division, San Diego, California, Deputy Contracting Officer, Interview granted, 10 March 1999.
24. Kritschgau, Ensign David, Naval Medical Center, San Diego, California, Contracting Officer, Interview granted, 12 March 1999.
25. Chase, Al, Naval Construction Battalion Center, Port Hueneme, California, Assistant Supply Officer, Interview granted, 11 March 1999.
26. Survey response from Naval Aviation Depot, North Island, San Diego, California, May 1999.
27. Survey response from FISC San Diego, California, May 1999.
28. Survey response from FISC Puget Sound, Washington, May 1999.
29. Survey response from FISC Jacksonville, Florida, May 1999.
30. Survey response from Naval Construction Battalion Center, Port Hueneme, California, May 1999.
31. Survey response from Supervisor of Shipbuilding, Conversion and Repair, San Diego, California, May 1999.
32. Survey response from Public Work Center, Norfolk, Virginia, May 1999.
33. Survey response from Public Work Center, San Diego, California, May 1999.
34. Lamade, Sarah, Chief Information Officer, Space and Naval Warfare Command, San Diego, California, opening speaker at the Acquisition Reform Tent Conference, San Diego, California, May 12, 1999.

35. Chase, Peter, Office of the Assistant to the Secretary of the Navy for Research, Development, and Acquisition (Acquisition Business Manager), Washington, D.C., keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
36. Branch, Elliot, Office of the Assistant to the Secretary of the Navy for Research, Development, and Acquisition (Acquisition Business Manager), Washington, D.C., Executive Director, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
37. Brower, Robert, Naval Facilities Engineering Command, Southwest Division, San Diego, California, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
38. Shearer, Richard, SAIC, Redwood, California, Head of Contracts, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
39. Martin, Robert, Wang Government Systems, San Jose, California, Vice President, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
40. Esaias, Richard, Space and Naval Warfare Center, San Diego, California, Branch Head, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
41. General floor comments, Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.
42. Jenkins, RADM G. H., Office of the Assistant to the Secretary of the Navy for Research, Development, and Acquisition (Acquisition Business Manager), Washington, D.C., Deputy Executive Director, keynote speaker at the Acquisition Reform Tent Conference, San Diego, California, 12 May 1999.



## INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center .....2  
8725 John J. Kingman Road, Suite 0944  
Fort Belvoir, VA 22060-6218
  
2. Dudley Knox Library .....2  
Naval Postgraduate School  
411 Dyer Road  
Monterey, CA 93943-5101
  
3. CDR Jeffrey R. Cuskey, SC, USN .....2  
Department of Systems Management Code SM/Ck  
Naval Postgraduate School  
Monterey, CA 93943-5103
  
4. Dr. David V. Lamm .....3  
Department of Systems Management Code SM/Lt  
Naval Postgraduate School  
Monterey, CA 93943-5103
  
5. LCDR Robert Campbell .....3  
Commander, Naval Air Systems Command, Code AIR-4.0C3  
Building 2185, Suite 3122  
22347 Cedar Point Road, Unit 6  
Patuxent River, MD 20670-1161